

Corporate  
Governance

**2022990216**

## Corporate Governance

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## Corporate Governance

### Shareholder Proposals

- Help tobacco farmers convert to other crops
- Halt efforts to restrict smoking in public places and to challenge ETS health hazards.
- Split the company into two separate corporations
- Place warnings on all forms of "cigarette/logo" advertising
- Redeem the Poison Pill
- MBC's Television Advertising
- Malt Liquor Marketing
- Milk/Cheese Pricing

## General

1. What procedures are in place to review CEO performance?
  - To be handled by MAM personally
2. What is your position on separating the offices of Chairman and CEO?
  - To be handled by MAM personally
3. Is it possible that major shareholders might withhold votes for directors?
  - Anything is possible, but I would hope that this would not happen. We give much thought and consideration to each nomination in order to obtain the person we consider best qualified for the job.
4. With the problems presently being faced by Philip Morris, how can you justify spending time on the boards of other companies, like Sears?
  - First of all, let me say that I serve on only one outside company board.
  - It is important for a chairman to serve on other boards because it provides valuable experience and ideas.
  - If we expect to attract other qualified board members, we must in turn be willing to serve on other boards.
5. Have you had any indication that any large group, such as CalPERS might want to try to make changes in PM's corporate structure, as happened at Sears?
  - No.
6. Have there been any instances in which the board disagreed with a significant management decision?
  - Not to my knowledge.

7. Do you think that Boards of Directors should take a more active role in management?
- There is nothing wrong with boards being active. As a matter of fact, all the boards I know play a very active role. At the moment there is a lot of media hype about inactive boards, but unless you are, in fact, serving on a board you aren't in a position to know how active or inactive it is.
8. Is the Company CEO available to meet with shareholders upon request, and if so, on what basis?
- Yes, from time to time when such requests are made. Each matter would have to be reviewed on its own merit. In any case, we have a very active Investor Relations department which is always available for meetings or to give information.
9. Is there much contact between outside directors and the company's top managers who do not sit on the Board?
- Monthly board meetings offer regular opportunity for contact.
  - Managers attend Board luncheons.
  - Top managers make presentations to the Board, and attend major Board planning meetings and trips.
  - There are informal question and answer sessions between the two groups.
  - The company's top managers participate with the directors in a 3-day strategy session to set the Company's Five Year Plan.
10. How much communication is there between ordinary share holders and top management?
- There is a regular program of meetings between senior management, financial analysts and representatives of major institutions who are the beneficial holders of millions of shares of PM stock owned by "ordinary" shareholders.
  - Company policy is to maintain open communication with all of its shareholders/owners.

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11. When does the Company's shareholder rights plan (poison pill) expire, and what is your position with respect to extending the plan?

- The Rights Plan was passed by the Board on October 25, 1989. The Rights will expire on October 25, 1999, unless redeemed earlier or exchanged by the Company. It is discussed in the 1993 Annual Report on page \_\_\_, Note \_\_\_.
- We feel that redeeming the Rights at the present time would deprive the Board of an important tool in preserving the long-term value of the Company and the investments of our shareholders.
- Further, an important study completed at a leading university (Rochester) concludes there is no evidence that the mere existence of anti-takeover measures contributed significantly to the end of the takeover boom of the 1980's. Contrary to the position taken by proponents, the study suggests that shareholder rights plans are "reliably associated with larger premiums for shareholders who sell their shares in a successful takeover."
- The Company's position regarding the plan may be found on page \_\_\_ of the Proxy Statement.

12. What is the Company's policy on confidential voting?

- Policy is stated on page \_\_\_ of the Proxy Statement: proxies and ballots that identify the vote of individual shareholders will be kept confidential except:
  - as necessary to meet legal requirements—in cases where stockholders write comments on their proxy cards, or in a contested proxy solicitation.
- During the proxy solicitation period, the Company will receive aggregate vote tallies from its Independent Proxy Solicitor, but not the name of stockholders. The Independent Proxy Solicitor will notify the Company if a stockholder has failed to vote so that he or she may be reminded and requested to vote.

13. Are you considering a ban on golden parachutes.
- No. We believe that employment contracts are essential in order to attract and retain superior employees who hold top management positions.
14. What do you think of shareholder demands that special committees be formed to investigate issues of current concern?
- Our current Board Committees are well equipped to handle ongoing issues as well as to address newly emerging ones. We do not believe that special committees would serve any additional useful purpose.
15. Has the Board formed an Ethics Committee or Social Responsibility Committee?
- Yes. The committee on Public Affairs and Social Responsibility has been in existence for over 20 years.
16. Do the Nominating and Compensation Committees comprise only outside Directors.
- Yes.
17. Why has the company not established a Shareholder Advisory Committee?
- Not necessary. All the directors are responsible to all the shareholders.
18. How does the Company keep its outside directors informed of Company matters?
- Meet 11 times per year.
  - Regular reporting of all company operations at monthly board meetings.
  - Annual 3-day planning session to review company's 5-year plans.
  - Presentations on specific operations at each board meeting.
  - Answer questions as they arise.

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19. How does the board actually participate in formulating company strategy?
- By reviewing and analyzing company's 5-year plans.
  - By reviewing and analyzing all new investments exceeding \$5 million and all increases in existing investments over \$25 million.
20. Have any institutional investors sold large amounts of Philip Morris stock lately?
- to come.
21. Have any officers, directors, or their associates disposed of large blocks of company stock recently?
- To come.
22. Why did they exercise their options?
- We do not know, and we do not make inquiries into the actions of individuals as long as they conform to SEC regulations.

### Composition of Board

23. Why don't you have more women and minorities on the Board of Directors?
- At this time we have two women Directors and one African-American on the Board.
  - There have been times when there were more women and minorities on the Board. As a company committed to diversity, we are constantly evaluating the qualifications of people who can be good contributors to the Board.
  - We don't have a quota system. We try to strike the right balance.
24. What is the percentage of outside to employee directors?
- Out of a total of 20 directors, 4 are employee directors — Murray Bring, Bill Murray, Hans Storr, and myself.

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25. Some of the people might think that having 20 people on the Board makes it cumbersome. Is any consideration being given to decreasing this number?
- No.
  - Over the years we have had larger boards. We consider that our present board is the right size, giving us the diversity and experience we need.
26. Are there any directors who might face possible conflicts of interest because they sit on the boards of other companies with whom PM deals?
- Our lawyers have looked at any possible conflict of interest, and they do not feel there are any.
27. How independent are your directors. Aren't most of them tied to the company in one business or another?
- We have a very distinguished Board, and we are delighted they are willing to serve.
  - Our directors are very independent — both according to the SEC definition and in the way they approach issues.
  - There are interlocks reflected in our Board membership.
  - It is by no means unusual for big companies like ours to have its bankers or lawyers on the Board.
28. What criteria does the Nominating Committee use to establish the independence of Directors? Describe any interlocking relations among the directors?
- We use the same criteria as when we look for Directors in general, like:
    - (1) multinational business experience
    - (2) diversity
    - (3) governmental experience
    - (4) academic experience, and
    - (5) genuine interest in our business

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- We don't seek out individuals who have relationships with the company.

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29. Do you think it is in the Company's interest that former CEO's should be on the Board?
- Yes. Hamish Maxwell and John Richman have a wealth of experience in dealing with the many issues our company faces today.
  - This experience is of great value to current management and provides continuing value for our shareholders.
30. Has the Company considered adding an environmentalist to the Board?
- No. All our Directors are responsible to all shareholders in every category of the company's operations, including environmental matters.
31. Are you thinking of having an employee representative on the Board?
- No.
32. Why was a new member added to board?
- To come.
33. Mr. Wolf has a long and distinguished history with the airline industry, but what expertise does he bring to the PM board of directors?
- To come.
34. How long do board meetings last?
- Approximately three hours.
35. What was the average attendance of the directors at the board meetings?
- To come.

36. Are the directors paid their fee if they are absent?

- No.

37. How much time do outside directors spend on company matters?

- Each director is member of one or more committees, some are members of four committees, and each committee meets 3 to 5 times a year for at least an hour each.
- Directors also attend 11 regular board meetings a year, which last about 3 hours each.

38. Where were board meetings held in 1993?

- To come.

#### Annual Meeting Arrangements

39. Has the Company considered rotating the annual meeting among location with large shareholder concentrations?

- We have considered it, but Richmond is the traditional home of Philip Morris.
- The Company is incorporated in Virginia. We have many shareholders, employees, and retirees in the Old Dominion.

40. Can nominations to the Board of Directors be made from the floor at the Annual Meeting?

- No. The company's By-Laws provide that such nominations must be made in writing during a specific period following the date of the previous year's proxy statement.

41. What is the cost of holding the annual shareholders' meeting?
- The cost in 1993 was approximately \$\_\_\_\_\_.
  - This included \$\_\_\_\_\_ for printing of the Proxy Statements, and \$\_\_\_\_\_ postage for mailing them and Annual Reports. The rental of the tent and related expenses amounted to \$\_\_\_\_\_.
42. Will a post-meeting report and a complete transcript be sent to shareholders?
- Yes. A post-meeting report is included in our First Quarter Report mailed to shareholders in June.
  - A complete written transcript is available upon written request to the Corporate Secretary.
43. Why can't we hold the shareholders' meeting in an auditorium large enough to accommodate everybody?
- We could, but we like holding our meeting on our own premises. We feel it is part of the Philip Morris tradition.
44. Why isn't there a "No Smoking" section in this auditorium?
- No request has been received.
  - If we get a request in the future, we want to be reasonable and will consider it.
  - As I'm sure you've noticed, this auditorium has very good ventilation.

## Audit Matters

45. What steps have been taken to strengthen internal controls to prevent kickbacks and other employee-vendor fraud?
- The Company maintains a system of internal controls to ensure that:
    - (a) transactions are executed in accordance with management's authorization and properly recorded,
    - (b) assets are safeguarded, and
    - (c) accountability for assets is maintained.
  - A professional Corporate Audit staff monitors the effectiveness of the controls.
  - Key employees and Directors are sent the Business Conduct Policy annually. They must certify compliance with the policy each year and are requested to submit exceptions to such policy to the General Auditor or the Secretary of the Audit Committee for review.
  - A special 800 number has been put in operation for the use of employees wishing to report any wrongdoing but preferring to remain anonymous.
46. Do the Corporate auditors report directly to the Audit Committee?
- The General Auditor, who heads the Company's Corporate Audit Department, reports directly to the Executive Vice President and Chief Financial Officer, and has direct access to senior management and the Audit Committee at his discretion.
47. What does the Company do about auditors also auditing its competitors?
- Coopers & Lybrand has strict internal policies relating to the confidentiality of client proprietary information.
  - It maintains separate engagement teams so that the same personnel would not serve major competitors.

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Questions from "The Heroes" (Committee of Concerned Employees)

48. Why did the Proxy Statement fail to inform shareholders of the business affiliations of the Directors, a failure that constitutes fraud by omission?
- First, we reject your suggestion of fraud by omission. The Proxy Statement did not "fail to inform" shareholders of the business affiliations of our Directors. Indeed, their business titles and directorships are set forth very clearly. The information in our Proxy Statement is required by disclosure rules of the SEC. We fully comply with those rules.
  - The business relationships to which you refer are common and usual, permitted by the regulatory authorities and conducted — in all cases — at arms length.
49. How can you justify the presence on the Board of many Directors whose qualifications and performance on the boards is suspect at best?
- Prospective members of the Board are previewed extensively by its nominating committee. The qualifications of each nominee to serve are examined exhaustively by the committee before it makes a recommendation to the Board.
  - Many of our Directors also serve on the boards of some of this country's most outstanding companies. They bring a wealth of valuable experience to your company.
  - We are fortunate to have such an outstanding Board. Your criticisms are simply unfounded.
50. Why did the Company deliberately misrepresent itself to the shareholders by concealing 1992 trade imbalances?
- We have never concealed trade imbalances.
  - Inventory management in the tobacco industry is a very complex subject. I shall not attempt to explain how and why we made some of the decisions we made. Such a discussion could take hours.

*(continued on next page)*



- Any trade imbalances which may have existed resulted from reasonable sales assumptions which proved later to be incorrect. Both we and the trade made many of the same assumptions.
- You may assume that remaining trade imbalances are being rectified.
- We can state categorically that our returns have been minimal, which leads to the conclusion that although some of the sales assumptions were more aggressive than others, the vast majority were correct.
- It should be noted that we want to ensure enough supply, and a certain minimum level of inventory is necessary.

51. Why does the Board retain so many inside members who have a vested interest in maintaining the status quo? Are you willing to reduce inside directors to two by 1995? How can the independence of the outside directors be guaranteed when so many of them do extensive business with the Company?

- We do not accept your premise. Of the \_\_ Board members standing for reelection, 4 are insiders — Mr. Murray, Mr. Storr, Mr. Bring, and myself.
- Messrs. Maxwell and Richman are no longer involved in the day-to-day operations of the business.
- The \_\_ outsiders whose firms do business with the Company and whose independence you impugn have also demonstrated their absolute independence time and time again.
- I cannot say what the Board will do but I suspect it will not reduce the inside directors to two by 1995 because there is absolutely no reason for it to do so. Nor is there any reason to ask directors to refrain from doing business with the Company. I can represent to you now that each such director is totally independent.

52. Mr. Miles, are you ready to take responsibility for the Company "tumbling into the abyss" in which it now finds itself? Are you prepared to face legal action against the Board and management brought by the shareholders and employees?

- Again, your premise misses the mark. There are hundreds of large companies in the U.S. which can only hope, someday, to match our outstanding financial performance.
- We have made a course correction, and we intend to make good on our promise to perform.
- Yes, the Board does hold me responsible for running this company, and I intend to demonstrate that it is on the right path.
- We believe that lawsuits such as the one you suggest would prove to be a waste of your time and money.

#### **Benefits to Directors**

53. Why give non-employee directors 400 shares of stock in addition to retainers and fees?

- This is a mechanism designed to increase the ownership position of our directors, rather than provide only cash compensation to them.
- We feel that it is important to align directors' interests with those of shareholders.

53. Why give directors retirement benefits?

- For competitive reasons; most large companies provide such benefits.
- This rewards Board members for longer terms of service. It acts as a retention vehicle.

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54. What other benefits do you provide outside directors?

- Outside directors receive the following "benefits": Reimbursement for business travel and life insurance.
- Outside directors have access to the following on a contributory basis (pay 100% of premium): Medical insurance, dental coverage, pension, and voluntary deferral opportunity for director fees.

55. Why does Mr. Miles have an agreement specifically related to termination benefits?

- When the KGF severance agreements were eliminated, it was agreed that all KGF employees, in the event they were involuntarily terminated, would be eligible for a severance arrangement.
- Severance arrangements were very much in use on a competitive basis.

57. Did the Company engage in discussions this proxy season with any shareholder or shareholder group concerning the inclusion or exclusion of any shareholder proposal in the Company's Proxy Statement? If so, give details.

- The Company engaged in discussion with all shareholder proponents, resulting in \_\_\_\_\_ . Please refer to page 1 of this section.

58. What are the procedures for director nominations. How were the nominees selected? Is shareholder input sought in the nomination process?

- Nominations for directorships must be submitted in writing during a period specified in the By-Laws (Article \_\_, Section \_\_). Shareholders are always free to submit nominations.

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59. On average, on how many boards of directors do the Company's independent directors serve? What is the highest number of directorships held by a Company director?
- On average, the number is \_\_\_\_.
  - Highest number of directorships held by a Company director is \_\_\_\_ (name).
60. How much stock do the directors own and, generally speaking, is it an important percentage of their respective portfolios?
- Number of shares owned by directors can be found on page \_\_\_\_ of Proxy.
  - We have no way of knowing whether this is an important percentage of their respective portfolios. They are under no obligation to communicate this information.

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Environment

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## ENVIRONMENT

1. Why hasn't PM Companies signed the CERES (Valdez) Principles?
  - Because our statement on Environmental Principles, which was published in 1992, is substantially similar to the CERES Principles in both word and deed.
2. In 1991 the International Chamber of Commerce (ICC) established a business charter for Sustainable Development. The charter outlines 16 principles that ensures a balance between economic growth and environmental protection. To date, over 700 corporations around the world have formally supported ICC's charter for sustainable development. Why has Philip Morris not yet supported Sustainable Development?
  - We agree with the general theme of Sustainable Development. However, we believe each company must design and abide by its own principles driven by the nature and scope of its operations.

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3. The Environmental Protection Agency has initiated a number of voluntary programs for improving the environment. Programs such as 33/50, which allows industry to reduce the amount of toxic chemicals it uses in manufacturing, and green lights, which encourages companies to switch to efficient lighting fixtures. Why hasn't Philip Morris joined these programs?

- We support the goals of both programs. However, we believe each company must design and abide by its own principles driven by the nature and scope of its operations.

4. The Council on Economic Priorities (CEP) has given Philip Morris its lowest possible environmental rating and urged customers not to purchase any PM products. What are we doing about this?

- The CEP (Alice Tepper Marlin, Director) is a non-profit group in New York that monitors social policies of large corporations. Annually, the CEP sponsors a book, "Shopping For a Better World," which led to an inaccurate *Daily News* article accusing PM of doing business in South Africa.
- Along with other companies, we contend that CEP's published reports are based on insufficient research and inadequate facts. We continue to monitor CEP's activities.

#### Package Legislation

5. Do we anticipate more "rates and dates" proposals for mandated recycling in 1994?

- Yes. State affiliates of the Public Interest Research Group (PIRG), an advocacy group led by Ralph Nader, are expected to push such legislation in numerous states in 1994.
- Philip Morris supports recycling as one of a number of solid waste management tools, but opposes these arbitrary and unrealistic packaging standards.

## **Clean Water Act Reauthorization**

6. Is there a need for Congress to pass legislation to reauthorize the Clean Water Act?
- Clean water is a critical ingredient in the production of our beer and food products. We have been a supporter of the Clean Water Act initiatives over the past 2 decades, and we continue to support this important program.
  - We have formed an intra-company task force to work on the reauthorization of the Clean Water Act to ensure that Congress passes legislation which will guarantee an adequate supply of clean water in the least bureaucratic, but most cost-efficient manner for water users.

## **Superfund**

7. What is your position regarding the reauthorization of Superfund?
- PM supports the cleanup of toxic waste sites and believes that the Superfund approach to this costly task is generally the proper one. However, a reauthorization of Superfund must deal appropriately with the liability issue so that companies are not exposed to liability out of proportion to their involvement in any particular site.

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## Beer

8. Are you for forced deposits on beer containers?

- Miller opposes mandatory forced deposits as they unfairly single out beverage containers while ignoring 80% of litter and 95% of the solid waste.
- Forced deposit laws have increased the price of beer and soft drinks significantly.
- Price increases due to forced deposits have resulted in consumers buying less or traveling to nearby non-deposit states to purchase beverages.
- Beverage containers only comprise about 6% of the municipal solid waste stream.
- Mandatory forced deposits remove valuable material from curbside recycling programs. In 1992, recovery rates for aluminum beverage containers was 68% and glass containers represents 33% recovery rate. At last count, there were over 4,000 curbside recycling programs in the U.S.
- Forced deposits have not helped save landfill space. According to Franklin Associates, of the 5 states with critical landfill shortages, 3 are bottle bill states (New York, Connecticut, and Massachusetts).

9. What does Miller do with its paper waste?

- Miller disposes of paperboard in its facilities in one of two ways; it's either recycled or reused.

10. Is Miller's packaging recyclable?
- All Miller's packaging is recyclable. All glass and aluminum containers and paperboard carriers can be recycled through curbside programs or voluntary drop-off centers.
11. Does Miller use recycled material in its packaging?
- Yes, Miller's aluminum cans are made from nearly 100% recycled materials, 50% of which is post-consumer material. Miller's bottles are made from approximately 30% post-consumer recycled material.
12. What has Miller done by way of source reduction?
- Since 1961, the amount of aluminum used in our cans has been reduced by about 45%.
  - Since 1986, we've reduced the weight of our glass bottles by more than 20%.
  - Since 1989, Miller has reduced shipments to landfills by 72%. By 1995, we expect to completely discontinue sending anything from our breweries to landfills.
13. What is Miller doing with regard to the Nature Conservancy Program?
- Miller's contribution to the Nature Conservancy was a one-time donation. Our agreement with the organization expired in 1993, and there are no plans for further support.

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## Food

14. What is KGFI's position regarding cleaning up the environment? What steps have been taken to reduce package waste, industrial pollutants, etc.?

- As a matter of policy, KGFI is committed to environmentally sound business practices.
- We have an enviable record over the years of reducing waste, using less packaging materials, and employing the latest technologies to ensure our products are kept safe.
- Some examples of this commitment are: In the last decade, glass usage has been reduced by more than 30,000 tons.
- Over the last 3 years, we have reduced the overall weight of packaging materials in our European businesses by some 20,000 tons, at a savings to the company of over \$30 million.
  - Glass packaging reduction alone over the 3-year period amounted to 5,000 tons.
  - Paper accounted for a reduction of 2,200 tons over the time period.
- In our roast and ground coffees, the inner packaging for vacuum-packed coffee consists of newly-developed synthetic materials with a thin aluminum film. This film has enabled us to reduce aluminum content from 465 tons to 2 tons annually.

## Resource Conservation Reauthorization Act (RCRA)

15. What is KGF's position on RCRA, the federal solid waste legislation?

- Past Congressional proposals focusing on mandatory recycling standards failed to adequately address the vital role packaging plays in food safety. Packaging assures the safety and integrity of

food products. KGF will continue efforts to assure that food safety concerns are taken into account in any federal solid waste legislation.

- Extensive progress has been made through voluntary industry efforts to recycle, reuse, and reduce packaging where safe and economically feasible. Market driven recycling and source reduction are working and should be allowed to continue without mandated "rates and dates" set by legislation.

16. What is KGF's position on environmental marketing claims?

- KGF joined in asking the FTC to issue environmental marketing guidelines, which the FTC did 2 years ago. These so-called "green marketing" guides are a significant step to assure the dissemination of uniform and truthful labeling and advertising information to consumers.
- Unfortunately, there are still many conflicting state and local laws and regulations. A uniform national standard is needed to provide one set of rules to facilitate national marketing based on environmentally beneficial attributes of products and packaging.

#### **Solid Waste**

17. What is KGF's contribution to the solid waste stream?

- 1.0%, by weight, of packaging in the solid waste stream.
- Since packaging is about a third of total solid waste, our contribution is 0.3% of total solid waste.

18. What are we doing about our contribution?

- KGF is committed to reducing our packaging and maximizing recycled content, consistent with food safety and integrity.
- Over the last 10 years, we have eliminated over a billion pounds of packaging from the solid waste stream.
- We use a half billion pounds of recycled material annually.
- We were the first food company to use recycled plastics in a food container when we introduced a 24 oz. pourable dressing container containing 25% recycled PET.
- We continue to support packaging research to develop breakthrough source reduction and recycling technologies that will maintain product safety and allow us to reduce our packaging contribution to the waste stream.
- A brochure entitled, "Working Together to Reduce Solid Waste," is available.

19. What's the solution to the solid waste problem?

- Solving the problem takes a combination of waste management options working together:
  - Source Reduction
  - Recycling
  - Composting
  - Waste to Energy Incineration
  - Landfilling
- The problem needs joint efforts by consumers, businesses, communities and the government all working together.

20. What has Oscar Mayer done to reduce the amount of solid waste associated with its packaging?

- Oscar Mayer has been very sensitive to the environmental issues associated with its packaging.
- Illustrative of this, we have reduced the packaging of our Lunchables by 45%. Likewise, we have removed all the heavy metals used in inks associated with our packages.

### **Solid Waste/Packaging**

21. Doesn't KGF/PM contribute a huge amount to the solid waste burden in the U.S.? What is it doing to change this?

- KGF/PM is constantly engaged in efforts to reduce the amount of packaging we use, consistent with protection of the product, and making certain that food safety is maintained. Over the past few years we have reduced the amount of packaging used by our products, and have been pioneers in the use of recycled plastics, where it has been shown to be safe for food packaging.

22. Why are so many products in non-recyclable plastic? Kool-Bursts? Capri-Sun? Shouldn't more things be in glass?

- Packaging serves a number of purposes, and the recyclability of the package is but one consideration. For many applications, glass is perfectly appropriate, but elsewhere it may prove to be too heavy, (resulting in increased shipping costs and energy consumption), or subject to breakage (resulting in lost product and risk of injury).

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- Some plastics that are not commonly recycled today may be recycled in the future as the recycling infrastructure is developed. Other packaging materials that may not be recycled may have been reduced to take less landfill space compared to their predecessor products.

23. Why doesn't KGF/PM use more recycled paper or plastic in its packages?

- There are a number of factors which must be taken into account when using recycled content in packaging. For any products designed to be consumed by humans (such as food, beer and cigarettes), the packaging must meet strict purity standards. While some advances have been made, the opportunities for the use of recycled plastics for food packaging are very limited. This is because technology is not yet available that would ensure that recycled plastics of all types could be purified to the extent necessary to protect food safely. Similarly, recycled paperboard must meet adequate purity standards, and, in addition, must be strong enough to provide protection to the product in all phases of transportation and distribution, including the wet, refrigerated and frozen environments which can significantly weaken paper fibers, especially recycled paper fibers.

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24. What are you doing to reduce Koolaid Koolbursts package or make it recyclable?

- The Koolaid Koolburst package is designed to protect the product using the most appropriate packaging materials. The plastic bottle is designed to be able to be recycled as plastic recycling grows. The plastic wrap is not extra packaging, but helps keep the product flavor. The paperboard holder is made from recycled material. We will continue to look for technologies that may enable us to use less packaging in the future, while still providing the protection needed for the product.

#### **Hazardous Waste**

25. Does KGF have any involvement with EPA Superfund Cleanups of hazardous waste disposal sites?

- KGF and its subsidiaries are currently involved in 86 Superfund sites, some of which are still in investigation. The majority of these sites involve waste generated at facilities or businesses which have been sold and for which KGF retains an indemnity obligation.
- KGF is also completing its systematic upgrading and replacement of underground fuel and gasoline tanks. As part of that process we are completing the remediation of any spills or leaks on our existing plant locations.
- Our expected financial contribution to cleanup is small in relation to other affected companies. We do have several sites where we are among the ten largest contributors based on the preliminary allocation of liability.



- We have established reserves which we believe are adequate for our expected financial contribution, or have insurance to cover expected costs.

26. Does KGF have plans to prevent an oil or hazardous substance related accident which could affect a community?

- Food manufacturing does not manufacture toxic materials.
- Food manufacturing does not use or store hazardous materials in any significant quantity except for ammonia which is used in facility refrigeration systems, and for materials used for cleaning and disinfecting of plant processing equipment.
- KGF facilities have developed emergency plans appropriate for the type of facility.
- KGF facilities are taking part in community disaster planning programs designed to prevent or mitigate disasters.
- We have targeted focused additional planning and training for all KGF facilities to be completed by 1994 as part of the KGF Environmental improvement project.

27. Does KGF have any pending cases alleging violations of one or more environmental laws?

- For 1993, there exists one minor administrative complaint of noncompliance at an Oscar Mayer facility in Madison, Wisconsin. The U.S. EPA is seeking \$66,000, which is below the SEC reporting requirement of \$100,000.

28. What is KGF doing to improve its Environmental compliance status?

- KGF recognized in 1991 that, due to the combination of unprecedented changes in personnel, product and facility changes, new and changed regulatory requirements as well as public expectation of environmental compliance, it needed to improve its compliance programming.
- A task force of internal technical and legal personnel systematically reviewed our compliance programs and made a series of recommendations to senior management. Those recommendations have been approved and incorporated in 1994 business and individual performance.
- PM Companies also conducted a compliance assessment whose findings were taken into account in the KGF environmental improvement project.

#### **Right-to-Know/Emergency Planning**

29. Will PM/KGF share with concerned citizens a list of all chemicals used in its facilities?

- PM/KGF complies with all applicable laws regarding the disclosure of hazardous substances used in its facilities. In addition, we have elaborate spill control plans and evacuation procedures in place in the event of a problem with those materials. However, our first emphasis is to prevent the inappropriate release of any substance to the environment, and our efforts are focused on proper training of employees and maintenance of equipment to make certain that unauthorized releases do not occur.

### Indoor Air Pollution

30. What does KGF/PM do about indoor air pollution at its facilities?  
Smoking?

- Each facility undertakes to make certain that adequate ventilation is provided so that the health or comfort of employees is not adversely affected.

Executive  
Compensation

**2022990251**

## Executive Compensation

### Determination of Executive Compensation

1. How does Philip Morris determine and justify the level of executive compensation?
  - The Compensation Committee of Philip Morris establishes the components of compensation that will be used to compensate our executives. Each component has a different objective.
  - Base salary compensates the executive for performing their day to day responsibilities.
  - The annual bonus compensates the executive for superior achievements over the prior fiscal year.
  - The long-term bonus compensates the executive for achievement of long-range (3-year) goals.
  - The stock option plan links the executive directly to the shareholder, in that as the stock price increases they benefit similarly.
  - Only the base salary is considered fixed, all other components are variable and subject to company performance, attainment of pre-set targets and individual performance.

## Limits On Deductibility

2. The new tax code places a cap of one million dollars per named executive officer that can be deducted as a compensation expense, unless the compensation is explicitly performance based. For the annual bonus, why did the company choose to maintain the discretionary evaluation of bonus amounts rather than adopting a formula/performance based plan, which results in the loss of the deduction for the amounts in excess of one million dollars?
  - The Compensation Committee of the Board of Directors carefully considered the impact of the new tax code provision on the company's incentive plan.
  - The Committee evaluates many factors, such as the achievement of overall corporate financial goals, operating company financial goals, strategic initiatives, increase in market share and so forth. In addition, the Committee recognizes that there are external factors, beyond the control of management, that significantly affect year-end results.
  - Because of the plan provisions allowing discretionary evaluation by the Compensation Committee, they are able to consider all of these factors in determining the final bonus amount. Therefore, the bonus truly achieves the objective of rewarding executives for significant accomplishments.

## Comments on Executive Compensation

3. How many of the top 5 executives will receive compensation greater than \$1 million?
  - For 1993, 4 of the top 5 executives will earn greater than \$1 million.

## Long Term Incentive Plan

4. A Long Term plan concluded and paid out in 1992. Is there a new program? What is the basis for the award determination? Does it relate to corporate performance?
- A new long-term plan is in place that runs for three years, 1993-1995.
  - The awards will be determined at the end of the performance period by the Compensation Committee based on a subjective evaluation of the success in achieving financial objectives and strategic initiatives by each operating company. Performance relative to the peer group will also be considered.
  - Financial objectives for each operating company include: income from operations, cash flow, earnings per share, pre-tax income.
  - Strategic objectives for each operating company include: maximized productivity, comprehensive senior management succession planning, optimization of product price/values.
  - The executives work for the benefit of their operating companies as well as Philip Morris companies as a whole. Therefore, awards for operating company executives will be based on corporate and their operating company's performance results. Executives from the corporate group will have their awards based solely on corporate results.
  - The specific financial objectives and strategic initiatives were selected because the successful achievement of these factors generally results in an increase in stock price. Furthermore, there are objectives that specifically relate to other measures of corporate performance, such as market share, cash flow, etc.

### Comments on the New Stock Plan

5. A new stock plan is being presented for approval. Why is a new plan necessary, given that the prior plan was just approved in 1992?
- To meet the performance based requirements established by the Omnibus Budget Reconciliation Act of 1993, the Stock Option Plan, under which the options are granted, must meet two primary criteria. Our plan met one of the two, so a new plan needed to be presented which incorporates both.
  - First, the plan must be performance based. The PM stock option program provides for shares to be issued at fair market value or at a premium to the market value, so an option is inherently performance based.
  - The second criteria for stock options is that the plan governing option distribution must also specify the maximum number of shares that can be awarded to an executive. The 1992 plan did not specify this and so it needed to be revised.

### FASB's Efforts to Change Accting. for Equity-Based Compensation

6. Now that FASB has announced that it will require a charge to earnings for stock options (assuming final approval), will Philip Morris discontinue granting options?
- No. We continue to believe that stock options are an effective means of motivating management, encouraging ownership of Philip Morris shares, and further aligning shareholder and management interests.
  - However, based on the financial impact of the charge, and the responses of other Fortune 500 companies, we may modify our program.



## Executive Compensation to Stock Performance

7. The shareholders sustained a significant loss of value when the stock plummeted from the mid-80's to the current level of about \$50. Have the executives' compensation been similarly affected?

- Yes.
- For our senior management, approximately two-thirds of the compensation paid to the executive officer group is variable incentive compensation, which is comprised of stock-based and cash incentives, both long-term and short-term. Therefore, when the financial results do not meet the benchmarks established by the Board of Directors, the executives' compensation reflects this.
- Specifically, this past year—1993, a decision was made to implement a strategic plan that would significantly improve the positioning of the company for long term success and profitability. However, for the past year, the financial results have been below plan and the executives' annual incentive awards have been reduced. And, their stock options have also lost value. The executives do have a direct financial incentive to improve financial results over the coming year.

### Impact of Stock Price Change on Option Award Size

8. The current price of Philip Morris stock is significantly below the high value of 1993. Yet, the proxy shows that the executives received more shares of stock than last year, and the total amount distributed to stock-eligible employees is much higher as well. What is the reason for this?
- First, the size of stock option grants, expressed in dollars, is based on competitive practice and is targeted at the 55th percentile of our peer group. The dollar amount of the stock option grant represents an investment opportunity. Increases in stock price result in a fewer number of shares being granted and decreases in stock price result in more shares being granted. Holding other factors constant, to provide a consistent investment opportunity, a decrease in stock price would result in a grant of more shares.
  - Second, although the Company's competitive pay objective has not changed from the 55th percentile, the 55th percentile has increased somewhat from last year. This increase also resulted in more shares being granted to executives.
  - Additional response if necessary:
  - On a year-to-year basis, even though the number of options increased, the total investment value, as determined by the Black-Scholes model decreased.

As an example:

		1992		1993	
		Grant	Date	Grant	Date
		Present	Value	Present	Value
	1992 Options			Options	
Michael Miles	75,000	1,611,750		125,000	1,153,750
William Murray	54,870	1,179,156		92,350	852,391
Geoffrey Bible	36,400	782,236		91,720	846,576

## Use of Change-In-Control Agreements

9. Why does Philip Morris continue to need change-in-control agreements for senior executives?
- We continue to believe that reasonable change-in-control protection for key management employees is valid, important, and still in the best interest of shareholders.
  - Change-in-control severance and employment arrangements aid in the recruitment and retention of key employees by assuring satisfaction of compensation and benefits expectations and requiring fair treatment in the event of a change-in-control. Equally important, by reducing the personal uncertainty and anxiety arising from a takeover situation, such arrangements help to assure full and impartial consideration of takeover proposals by management.

## Compensation Committee Retaining an Outside Consultant

10. Does the Compensation Committee retain a separate independent compensation consultant and if not, why?
- No, the Compensation Committee has not retained and has not separately been advised by outside compensation consultants. The Committee has not yet felt the need to do this in its ongoing review and determination of compensation for executives at the company.
  - However, the Committee has had access to and reviewed compensation survey data and comparisons conducted by independent consultants.

*(continued on next page)*

- In addition, management recommendations and presentations to the Compensation Committee are previewed with independent consultants who in turn advise the Company on the appropriateness and reasonableness of these actions or observations.

### Executive Stock Ownership Requirements

11. What is Philip Morris' position on forcing top management employees to hold and own shares after exercising options?

- We do not believe that we can require and *force* our senior executives to purchase and hold shares, and beyond that enforce a maintained level of ownership.
- Instead, we want to strongly encourage ownership of Company stock, and much of this encouragement is the potential benefit derived from future stock price increases.
- While each executive needs to reflect on their own financial/personal circumstances, we believe that there is a *reasonable* minimum range within which our senior executives ought to own shares and make the corresponding financial commitment and sacrifice.

Health  
(Tobacco and Food)

**2022990260**

## HEALTH

### Food

#### Retail Cheese Division

1. How is Kraft addressing Health issues related to Dairy products, particularly fat and cholesterol content? How well have Kraft's Light/Low Fat Cheese products performed?
  - The "Light" and Fat Free Cheese segment is growing, and we are aggressively marketing a number of "Light" and Fat Free cheeses including:
    - Kraft Light Naturals, a reduced fat, lower in cholesterol, Natural Cheese. It is the market leader in Light Cheese with over a \_\_\_\_% share of the segment.
    - Philly Light, a lower calorie and lower fat version of Philly Cream Cheese. Light Philly is the market leader in its segment, and has a \_\_\_\_% share of total Cream Cheese. We also now have Philly Free in national distribution and it is performing very well.
    - Kraft Free Singles was expanded nationally in November 1991. It has done exceptionally well in achieving a 4.1% share of process cheese slices.
    - In 1993, we completed the national rollout of the entire line of 50% reduced fat products under the Kraft Healthy Favorites label, which is performing as expected.

2. Is Kraft worried about cholesterol in its cheese products?

- We continue to believe a healthy diet ought to include variety, balance and moderation. Dairy products, including cheese, are excellent sources of many nutrients, including calcium, protein and Vitamin A. While dairy products contain both fat and cholesterol, eating them as part of a balanced diet remains a good practice for the vast majority of consumers. The new FDA "Food Pyramid" includes dairy and cheese products as part of a balanced diet.
- We are very interested in finding ways to provide consumers with choices, including reduced fat and cholesterol cheese products. In making these products, we feel that it is important to maintain the high quality standards people have come to expect with Kraft branded products.
- To date, we are marketing several lines of cheese products that are reduced in fat and cholesterol.
  - Kraft Light Natural Cheeses and Cracker Barrel Light Natural Cheese are low in cholesterol and have 1/3 less fat than regular cheese.
  - Kraft Light Singles are low in cholesterol and also have 1/3 the fat of regular Kraft Singles.
  - Light Philly Brick contains 1/3 less fat than regular cream cheese, while Light Philly Soft contains 50% less fat and is low in cholesterol.
  - Kraft Free Singles have less than 1/2 gram of fat per 1 oz. serving.

- Velveeta Light which is low in cholesterol and has 1/3 less fat than regular Velveeta.

### Health Claims

3. Why doesn't KGF stress the health benefits of its products more?
  - Our foods are designed to be eaten as part of a complete diet. A person's diet must have a variety of foods in order to provide all appropriate nutrients. A "food" is therefore not healthy or unhealthy by itself. Claims about the health or nutrition benefits of a specific food item must be made under the current regulations regarding health claims on labels and in advertising which are undergoing revision.
4. Doesn't KGFI's expansion into developing areas of the world encourage people to adopt the unhealthy eating habits of Americans?
  - We are in the business of giving consumers what they want — not dictating their needs and preferences.
  - We produce food products of the highest quality, safety, hygiene, and nutrition for consumers who wish to buy them, wherever they live.
  - We are adding high quality products and enable consumers a greater choice of food products.
  - As standards of living increase in developing countries and communications and knowledge of their cultures grows, there also comes a desire for increased access to many goods and services from the West.



### Heart Association Seal of Approval

5. Why don't KGF products bear the Heart Association Seal of Approval?
  - "Seals of Approval" by third parties are frequently somewhat deceptive, since they may not be based on objective criteria, may require that a sizable fee be paid, or may focus inappropriately on particular types of food or particular nutrients to the exclusion of others. These seals typically imply that a particular "food" is healthy, instead of focusing public attention on the total diet.

### Children's Advertising

6. Don't you, as a company, have an obligation to educate children about proper nutrition?
  - Since 1987, we have provided more than \$6 million to organizations that conduct nutrition programs or provide nutrition information.
  - However, corporations cannot undertake a challenge like children's nutrition by themselves – there has to be a concerted effort among parents, educators and the public and private sectors.
  - One of the most powerful forces in educating the public about better nutrition is competition among companies to make and sell products that appeal to rising health concerns.

## Tobacco

### Environmental Tobacco Smoke

7. Is smoking a health risk?

- PM acknowledges that smoking is a risk factor for certain human diseases, and we believe consumers are aware of these potential risks. Warning labels have been on cigarette packs for more than 25 years.

8. Has EPA's risk assessment on environmental tobacco smoke (ETS) increased the trend of both public and private smoking bans? What will be the impact on Philip Morris' revenues?

- Recent surveys demonstrate that most Americans favor policies of accommodation for smokers and non-smokers alike, instead of smoking bans. So while there has been an initial trend toward more smoking bans, we are hopeful that the public's desire for accommodation policies will lead to more reasoned decision by public officials.
- Extensive smoking bans could affect our sales.

9. What is PM's response to the claim by the EPA that exposure to ETS increases the risk of respiratory problems in children?

- A growing number of complaints of childhood respiratory problems are associated with poor indoor air quality in schools and day-care centers where ETS is not a factor.
- The scientific studies that have been done have not shown that ETS, as opposed to other factors, is responsible for respiratory diseases in children.

- Other factors, such as socioeconomic factors, exposure to contagion and indoor pollutants other than ETS have all been linked to respiratory illness in children.
  - Studies EPA has relied on are inconclusive and inconsistent with at least 25 other independent studies that report no statistically significant association between respiratory disease in children and ETS.
10. The EPA report stated that ETS has been found to cause cancer in non-smokers and respiratory illness in children. Under the circumstances, how can PM USA oppose smoking bans?
- We believe the EPA report was seriously flawed, and its conclusions were not justified by the facts. As you may know, we joined other members in the tobacco industry in filing suit against the EPA to overturn the findings of the report.
  - However, PM USA does believe that indoor air quality needs improvement. The real problem is not tobacco smoke, but buildings with poor ventilation systems or poor ventilation system maintenance. Where adequate ventilation exists, policies that accommodate smokers and non-smokers are the answer. If ventilation is inadequate, banning smoking will not prevent poor indoor air quality.

## Health Care Reform/Excise Taxes

11. Should excise taxes on tobacco and alcohol products be increased to pay for the cost of health care reform?

- Philip Morris supports health care reform. However, we share the widely held view that controlling escalating health care costs should obviate the need to raise taxes. However, if additional revenue proves necessary, it should come from broad-based, equitable taxes, and not from excise taxes, which are regressive.

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Human Resources

**2022990268**

## Human Resources

### Affirmative Action and Diversity

1. What has been done about the harassment situation at Fulton Brewery / Miller Brewing Company?
  - Allegations of harassment at Fulton are the subject of litigation; so, of course, we cannot comment on that.
  - However, Philip Morris has a corporation-wide policy prohibiting any form of harassment. Any suspicion or charge of harassment at Fulton, or elsewhere, is taken very seriously and acted upon.
2. There have been terminations of certain black managers at Philip Morris, such as Allene Roberts. What is being done to ensure a fair and impartial hearing for individuals such as this?
  - Although we will not address any particular termination case for obvious reasons, each Philip Morris employee has his or her internal chain of command in each unit to voice concerns about fairness.
  - There is also a Human Resource staff person, up to and including the senior vice president of Human Resources, as another channel to receive a fair and impartial hearing.
3. There is a contracting work force at Philip Morris to meet (future) business objectives. What is being done to ensure the Affirmative Action progress obtained thus far is not wiped out with one layoff?
  - The good news is we have continued to make Affirmative Action progress despite workforce reductions. Each business unit head is responsible to monitor and track employment demographics at the time of any reduction in force.

- Also, twice a year, an Affirmative Action and Diversity Committee of the Board formally meets to review trends and ensure diversity progress continues.
4. What has been accomplished in affirmative action, diversity, or within Philip Morris's commitment to be a socially responsible corporation?
- Philip Morris has several accomplishments in affirmative action and diversity.
  - To name a few, in the area of employment, the percent of representation for women, African-Americans, Hispanics, and Asians has increased even though the domestic work force has decreased over 7% in the last 4 years.
  - 1 of every 4 PM employees is a person of color.
  - Nearly 1 of every 3 Philip Morris employees is a woman.
  - Of professional/managerial employees, 16.3% are people of color and 28.1% are women.
  - Of vice presidents (i.e., salary grade 18+), 7.4% are people of color and 9.2% are women.
  - Of the Board of Director representation, 10.5% are people of color and 10.5% are women.
  - We also have a Minority Vendor Program, and in 1992 we spent \$315 million with minority vendors, suppliers, or contractors. In addition, we anticipate over \$1 billion in expenditures over the next 3 years.
  - Also, nearly 1 of every 5 of our philanthropic contributions dollars goes to support diversity-related projects and programs.

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### **Sexual Orientation**

5. What is PM/KGF policy with regard to the sexual orientation of its employees?
- We do not discriminate on the basis of sexual orientation.

### **Workplace Monitoring**

6. What is KGF/PM policy with regard to monitoring employees in the workplace?
- Legislation pending in Congress would unduly restrict the sorts of normal activities that most employers perform, such as tracking the location of vehicles. If employees are alerted that telephone messages, computer files, etc., may be monitored by their employer, there should be no reason to restrict such behavior.

### **Management Development**

7. Please explain the management development initiatives in place in PM to provide international and cross industry experience to employees to develop successors to top management.
- We have a succession planning process and management development and training initiatives in place which are used to match talent with opportunities to assist our employees in development of these skills.
8. What are the tangible initiatives PM is undertaking to reduce costs?
- Our efforts to reduce costs are ongoing. For example, 8,000 employee positions have been eliminated (or consolidated with others) in the past 2 years.



- Since 1989, 29 plants have been closed and more are being studied.
  - Also, total quality management is in place across the corporation.
9. How does the company plan to attract and retain top talent in light of the negative publicity surrounding tobacco?
- Philip Morris is a consumer products company that offers challenging opportunities in all of our businesses — food, beer, tobacco, and financial services/real estate.
  - We have an environment that fosters the team approach and employees are encouraged to step forward and take risks, think creatively, voice their opinions, and strive to make a difference. This gives our workers a sense of empowerment.
  - We have solid management development initiatives in place to enhance an employee's career growth and increase their knowledge and skill base. In line with this, our compensation and benefit programs are positioned very competitively in the marketplace.
  - We have no problems attracting and retaining top talent and will continue to seek creative initiatives to keep Philip Morris an exciting place to work.

10. What changes are being made in the businesses to increase the speed and effectiveness of the organization?

- The first is a substantial reduction in our worldwide work force.
  - 21 plants closed since 1991
  - 8,000 employee positions eliminated (or consolidated with others).
- We've increased productivity through streamlined organizational layers, improved synergies between businesses, reduced overhead, and other factors. For example, since 1989, sales per employee increased 25.4% and profit per employee increased 26%.
- Also, there have been important organizational synergies and management efficiencies, such as:
  - Kraft and Jacob Suchard in Europe
  - Food and tobacco in Latin America
  - Oscar Mayer and Kraft USA
  - Frozen and Lender's into GF USA.

11. What is PM doing to ensure that it will have a future generation of business leaders who have the experience and perspectives to compete in a global economy?

- We're strengthening our succession planning process by identifying development opportunities and surface talent.
- By moving people between businesses. For example, 192 of our successors work in totally different businesses from a year ago (1992-1993). That's up 200% from 2 years ago.
- We've also made some dramatic developmental moves; i.e., John Bowlin to Miller Brewing.

- We now have a Performance Management System in place across the businesses.
- We're tightening our appraisal process through honesty and candor, the drive for better appraisals, and by using common language and performance standards.
- We're developing a "Core Curriculum" of training that is more focused on critical skills, business issues, and building a shared culture and values.
- Also, through a mobility survey, we identify employees willing to move.

### Workplace Monitoring

12. What is KGF/PM policy with regard to monitoring employees in the workplace?
  - Legislation pending in Congress would unduly restrict the sorts of normal activities that most employers perform, such as tracking the location of vehicles. If employees are alerted that telephone messages, computer files, etc., may be monitored by their employer, there should be no reason to restrict such behavior.

### General Concerns

13. What is the long term impact of the health care tax increase on our overall business — stock price, profits, etc.?
  - That's difficult to predict. However, I can tell you that tremendous efforts are continually underway to push back on these governmental initiatives which constrain an individual's freedom of choice through their pocketbook.

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14. What is the read on what the Marlboro Friday strategy is going to bring us?
- Our strategy is working. Market share is up and continuing to grow. Our read is that this will continue, to the benefit of our shareholders and employees.
15. Many corporations are bringing in outsiders to inject new ideas into their corporations. Does Philip Morris have plans to do the same — particularly in the domestic cigarette area? If so, why? If not, why not?
- Our overall corporate strategy is first to develop and promote our own employees, and secondly to selectively bring in new talent from the outside.
  - Our overall rate is approximately 85% of our positions filled from within.
  - However, we do believe that appropriate recruits from outside the company, with new ideas and approaches, keep the corporation energized.
16. Why does Philip Morris continue to invest in China when China has such a poor record of human rights violations?
- Our mission has been, and remains to be, the most successful consumer packaged goods company in the world. To do that, we look to be in business in any part of the world where there are consumers.
  - Politics are more appropriately the province of the U.S. State Department, whose policies we are in compliance with regarding the PRC.

- China represents a huge opportunity for us. With a population of 1.2 billion, it's essential that we increase our presence there as our principal competitors have and continue to do so. We have 3 joint ventures established, and we are building on this base to give us a leading position in China.

17. Will Philip Morris begin conducting business in South Africa?

- Our KGF and Jacobs Suchard businesses have had licensing agreements in past years in South Africa. While the ANC has recommended lifting the ban on investment in South Africa, many of the state and local governments have not yet lifted their bans.
- Our posture toward South Africa has not changed, but we are monitoring the South African market very carefully as we consider this area to be an important opportunity for our business.

### **Corporate Aircraft**

18. Why does Philip Morris need an Aviation Department?

- We operate corporate aircraft for 2 primary reasons: First, many of our locations in the U.S. and in Europe are extremely difficult to reach via commercial air. Corporate air allows managers to more efficiently conduct business at their out-of-the-way sites, and allows us to travel in developing regions of the world not supported by reliable commercial airlines.
- Second, corporate air provides a greater level of security for senior management.

19. How many corporate jets does Philip Morris have?

- To come

20. How much does the corporate aircraft program cost?

- To come

### **Headquarters Costs**

21. What is the corporate headquarters doing to keep costs down?

- As is the case with all of the operating companies, the corporate staff organization is concerned with costs and effectiveness.
- In all cases 1994 operating budgets are less than they were in '93.
- Early retirement program offered in 1993; headcount is down as well.
- We have canceled some programs and activities that are no longer critical or relevant.
- And we are working across all functions to find more ways to reduce costs and become more efficient and effective.

### **Work and Family Balance**

22. What is Philip Morris doing to support work and family balance issues?

- We are sensitive to these issues and believe that when we can assist our employees in dealing with work and away-from-work balancing, they become more productive.
- Most of our operating companies have made progress in this area through child care referral assistance, on-site services, elder care referral assistance, flexible working hours, and so on.
- More to come

## Workforce Reduction

23. In your effort to streamline operations and reduce expenses, were any open window or workforce reduction programs implemented in 1993? Were the cost-savings goals achieved and are additional programs planned for 1994? Could executive salaries have been reduced, so as to save some employees' jobs?

- To reduce expenses and promote efficiencies in both their operations and management, some of the operating companies implemented workforce reduction or early retirement programs.

<u>Workforce Reduction/ Open Window</u>	<u># of Employees</u>	<u>Long-Term Savings</u>
Corporate	44	\$3,200,000
PM USA	483	39,400,000
PMI	42	4,062,000
Miller	<u>353</u>	<u>14,600,000</u>
Total	922	\$61,262,000

- There will be additional workforce reductions, but only to the extent necessary to streamline operations, and achieve a high level of efficiency and productivity.
- The annual cost savings from the reduction in force/open window plan results in a much greater dollar amount than the combined compensation basis, reducing the executives' salaries would not result in a significant cost savings.
- Additionally, employee costs will be stringently managed across all operating companies:
- The salary structures will be frozen for this year. Typically, the salary structure, which provides the range of pay for a job, advances several percentage points a year.

- The Merit Increase Guidelines, which establish the range of salary increases for each performance level, will be calibrated to the rate of inflation. Therefore, the company's total salary expense will increase only by the inflation rate.

### Health Care Reform

24. The new Clinton Health Plan has been released, and will now be discussed and debated in Congress, pending modification. How will this plan affect Philip Morris, benefits coverage for employees and the associated expenses?
- Philip Morris has been aggressively addressing the issue of health care cost containment. The revisions that we have made are consistent with the direction of the proposed guidelines, so we are well-positioned at this point.
  - As the Clinton plan now stands, the new standard benefit package would require three plans: fee for service plan, point of service plan, and an HMO. Philip Morris has been implementing managed care plans in all of the operating companies. These managed care plans provide similar health-care coverage to that required by the federal plan. We are also ahead of other companies in already having access to the existing networks.
  - We expect that the final plan will be vastly different from the one originally proposed by President Clinton. Based on the requirements, we may need to further revise some plan features, but this will be done as the final provisions are released.

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### Family and Medical Leave

25. "The Family and Medical Leave Act of 1993" was signed into law during the summer of 1993. The law gives employees access of up to 12 weeks of unpaid leave for the birth or adoption of a child, and the serious illness of the employee, family member, or parent. Health benefits are continued during the period of absence on the same terms as for other active employees. What is the company's position on this new legislation?

- Philip Morris has had a policy that employees could receive up to five months of unpaid parental leave and up to six months of unpaid medical leave at the discretion of management. The Philip Morris policy will continue to provide the same benefits except that the first twelve weeks will not be subject to management discretion.
- The legislation would not cause the company to incur excessive costs, since the leave time is unpaid. The company would incur costs for the continuation of benefits during the leave.
- Like Philip Morris, more and more companies are moving to provide policies that will help employees balance work and family. We believe that these policies increase our chances of retaining the type of personnel that PM seeks to hire because it provides a way for them to attend to family needs without severing their ties to the Company. Were it not for such policies, we might lose those valued employees to another employer.

26. Has this statute disrupted PM/KGF operations?

- No.

## Tobacco

PM USA restructuring information found in "Restructuring" section.

27. What has been the impact of workforce downsizing in Richmond and elsewhere. Will there be more?
- Since 1991, the PM USA workforce has been reduced by more than 10%.
  - TK
28. Will you be manufacturing in 3 cities five-to-ten years from now?
- That is our current intention.
29. What are you doing to improve productivity?
- Improving productivity has always been a priority at PM USA, and we have achieved steady improvement in this area for the past decade and more.
  - More recently, PM USA, over the past few years, has created, tested, and refined a total quality management program. The program demonstrably increases productivity, and at a rate that is significantly higher than comparable, more localized efforts.
  - 1994 is the first full year the total quality program, which we call the Manufacturing Improvement Program, will be in place and operating in every one of our manufacturing centers. We expect to see our productivity increase noticeably as a result of this program.

30. Given the legislative climate in New York, does PM have plans to move corporate and/or PM USA headquarters elsewhere?
- No, we don't.
  - We always focus on being responsible corporate citizens in any community where we are located, and New York is no exception. There are many legislators in the state and city who appreciate our presence, both as an economic contributor and a supporter of cultural and community programs.
  - We did conduct a feasibility study of moving PM USA headquarters to Richmond. We determined that the potential benefits of such a move would be more than offset by the loss of many dedicated, experienced employees, and we decided not to pursue this matter further.
31. What is the status of the Cabarrus expansion?
- We are continuing construction according to our revised schedule. Some production will begin in 1994. Additional production will come on line as called for to meet demand.
32. Isn't it inconsistent to be making workforce reductions in Richmond while expanding Cabarrus? Why not just put a hold on Cabarrus and pick up any needed production in Richmond?
- In the competitive and rapidly changing business we are in, we simply have to focus on lowering our cost per unit. On a per unit basis, we can make cigarettes most efficiently at lowest cost at our most modern facility — Cabarrus.

33. How can you justify layoffs and plant closings while you're adding cigarette production volume through plant acquisitions overseas?
- Domestic downsizing and overseas acquisitions are 2 separate issues, and it does not make sense to link them. Through our overseas acquisitions, in addition to obtaining factories, we acquire local brands that appeal to local tastes, and we also gain immediate access to key local distribution systems.
  - Because of our global packaged consumer goods scope, we identify other opportunities. The resulting synergies provide us with increased competitive advantage and, ultimately, increased shareholder value.
34. Will the PM USA - Stockton Street facility in Richmond be closing and will there be further layoffs?
- We are constantly evaluating our business needs in order to remain competitive. Beyond that, any comment would be speculation
  - [to be updated.]
35. What are the long term plans for your Louisville facility?
- We greatly value our Louisville employees and the quality of the products they produce, and we intend to remain in Louisville for the foreseeable future.

36. What are the reasons for the restructuring of PM USA that was first announced in December, 1991? How is it going? How long will it continue?

- As a part of our ongoing business activities, we constantly evaluate all aspects of the way we do business. Given the rapidly changing industry we are in, such self-evaluation is not just a prudent approach to business, it's imperative if we want to stay competitive and profitable.
- Competitive pressures and the changing marketplace mean that increasing manufacturing efficiency is absolutely critical to future revenue growth.
- Our restructuring efforts to date have been quantifiably successful. We have taken literally millions of dollars in costs out of our manufacturing operations.
- We fully expect to continue restructuring and realignment in pursuit of increased efficiencies and cost savings.

#### **Food**

Information on Kraft restructuring not available 12/16. Data will be placed in the "Restructuring" section.

#### **Beer**

Fulton closing information found in "Restructuring" section.

Labeling

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## **LABELING**

### **Retail Cheese Division**

1. How is KGF responding to the NLEA Food Labeling Regulations?
  - We are in the process of changing all of our labels to comply with the new regulations. Many of our products already have new labels, and all will be in compliance by May 8 the effective date.
  - KGF supports the FDA's efforts in this area.

### **DiGiorno**

2. How will NLEA affect refrigerated pasta and sauces labeling?
  - All DiGiorno labels will be changed to be in compliance with the new NLEA regulations.

### **Budget Gourmet**

3. What will be the impact of NLEA regulations on AAGC's healthy products?
  - Preliminary indications are that NLEA will have very limited impact on AAGC's frozen businesses. Most products already meet all federal labeling requirements for "Light" products and minor reformulations are expected in only a few items.

## KGF Canada

4. What will the impact of NLEA be on KGF Canada?
- On finished food products being shipped to the U.S., a label that complies with NLEA format will be required. This is no different than the requirement for U.S. products to meet Canadian regulations, as under the Free Trade Agreement. The basic requirement for each player is to meet the regulations of the country of destination.

## NLEA

5. Why doesn't (product) have the new label on it now?
- FDA requires that products it regulates must comply with NLEA by May 1994. USDA products must comply by July 1994. We are in the process of converting now and will meet compliance deadlines.
  - A number of our products are already featuring new labels, and we will continue to change over as supplies of existing labels are depleted.
6. What's the earliest that KGF products with the new label will appear in stores?
- Products with the new labels began appearing in stores in the third quarter of 1993.



7. Now that (product) is "mislabeled" according to the new regulations, doesn't that mean you are deceiving consumers?
- No, absolutely not. The new regulations are not based on any finding of deception -- they are based on newly conceived standards and definitions.
  - All our products comply fully with current regulations and once the new regulations go into effect, they will comply with the new regulations as well.
8. What can consumers expect now that the new labeling requirements are out?
- Gradually, over the next year or so, consumers will see changes in the labeling of virtually every food product. Almost every food product will have a nutrition panel.
  - Product labels will include additional nutrition information to help consumers determine the nutritional content of foods for comparative purposes and planning diets that incorporate a variety of foods.

9. What will KGF's role be in educating consumers about the new label?

- We have a number of ways in which we provide information to consumers, including our 800 numbers.
- We have developed a nutrition education program called "A Matter of Balance." This includes:
  - consumer brochures
  - funding for an 800 number at the American Dietetic Association; and
  - grant to ADA to provide extensive outreach to media, the most frequent source consumers use for nutrition information.

10. How costly will it be for KGF to comply with the new requirements?

- We do not have a specific estimate but expect that the costs will be tens of millions of dollars. These costs will vary depending upon how particular products are positioned to respond to the regulations.
- In general, there are scale advantages to labeling compliance and so we feel we are well positioned versus our competition on a per-product basis to comply with the new rules.

11. When will Oscar Mayer nutritionally label its products?

- Oscar Mayer supported the Department of Agriculture's initiative for the detailed nutritional labeling of meat and poultry products. All products will carry the nutritional information by July 1994.

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## Product "Downsizing"

12. Isn't it misleading to consumers when you reduce the amount of product in your packages, and don't call attention to that fact through special labels?

- No. All of our labels disclose the net weight of ingredients as required by law, and there are regulations against slack filling of packages.
- Periodically, there are general complaints that reducing package sizes can result in "hidden" price increases. It must be remembered that retailers, not manufacturers, set consumer prices and most major retailers provide consumers with "unit price" information at the point of purchase.
- In some cases, the weight of the product is reduced, while the "yield" remains the same:
  - coffee, due to new roasting technologies; and
  - beverage mixes, due to new sweetener.
- In some cases, a decrease in weight not only does not affect yield, but represents a quality benefit for the consumer:
  - Beverage mixes (Kool-Aid, Country Time, Tang) recently changed sweeteners from sucrose to a sucrose/fructose blend, resulting in lower sugar content.
- In some cases, weight reductions are used to avoid otherwise unavoidable price increases due to increased manufacturing costs.
- By requiring labels saying "less" or "reduced" on packages, we would inevitably confuse consumers.
  - Less than "what"? Less than "when"?

## **State Dairy Product Labeling Regulations**

13. How does KGF/PM respond to local dairy labeling laws?

- We comply with all applicable laws. We believe that consumers are better served by uniform federal labeling laws, and compliance with local laws tends to increase costs and confuse consumers.

## **Nutrition Labeling & Education Act**

14. Will KGF revise its labels to comply with the new law?

- Yes. KGF products will have new labels by May 1994 to comply with the Nutrition Labeling & Education Act.

## **Nutrition Labeling Law**

15. What is KGF's position on the new food labeling laws/regulations?

- On the whole, we support mandatory nutritional labeling. KGF supported the original legislation, and filed extensive comments in response to the NLEA rulemaking.
- Complying with the new regulations by changing every one of our labels will require a massive effort, and involve considerable expense. But we are confident that we can meet the May 1994 deadline and fully comply with the law and regulations.

**KGFI**

16. Do you anticipate that there will be pressure to strengthen the EC Directive on labeling for more disclosure based on new labeling requirements in the United States?

- Labeling is a complex issue in all countries. It's a balancing act between the consumer's right to information (amount, degree, nature, and prominence of that information) and the practical aspect of providing clear information within a limited amount of space.
- We support any reasonable and practical proposals which reflect this balance.
- The situation in the EC is not different from other countries. There, it is simply more complex as efforts are made to harmonize 12 different sets of labeling and language requirements.

## Beer

### Alcohol Content Labeling

17. What is your position on alcohol content labeling?

- This past year the courts lifted a long standing ban on alcohol content labeling. Alcohol content may not be placed on labels at the option of the individual states. For the sake of economizing production costs, we would prefer uniformity among the states rather than a patchwork of individual state laws and regulations.
- This change favors consumers by providing them with information that may be useful in making purchasing decisions.

### Tobacco — PMI

18. Are health warnings in place on all packs now?

- To be updated: This program is in place in almost all countries in which we do business. There are some exceptions where old stock is being depleted before the new stock is used.

Legislation

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## Legislation

### Tort Reform

1. Will Congress pass product liability reform legislation?
  - For over 10 years, Congress has considered uniform product liability legislation without passing a bill. While it's expected they will consider such legislation again, the proposal is not expected to pass.
  - We believe, however, that in the near future, the prospects for reasonable, balanced tort reform legislation are much better at the state level.
2. What is PM's position on tort reform, and how are we trying to impact legislative decisions?
  - We believe that liability doctrines should be fair and reasonable to consumers and to manufacturers. Currently the unpredictability of the U.S. legal system increases consumer costs, stifles competition, and inhibits innovation.
  - To redress this imbalance, we are participating in national and state tort reform coalitions, such as the American Tort Reform Coalition.



3. Why does Philip Morris oppose legislation to limit the ability of trial courts to issue protective orders in litigation that keeps information about product defects or other public hazards away from the public?
- Existing court rules generally grant trial judges discretion to keep information confidential. This allows protection of trade secrets, personal medical records, or other information produced during the discovery process and not introduced at trial which could be taken out of context.
  - The plaintiff's bar hasn't shown that trial judges are abusing this discretion, so other legislation is simply unnecessary.

#### **Clean Water Act Reauthorization**

4. Is there a need for Congress to pass legislation to reauthorize the Clean Water Act?
- Clean water is a critical ingredient in the production of our beer and food products. We have been a supporter of the Clean Water Act initiatives over the past 2 decades, and we continue to support this important program.
  - We have formed an intra-company task force to work on the reauthorization of the Clean Water Act to ensure that Congress passes legislation which will guarantee an adequate supply of clean water in the least bureaucratic, but most cost-efficient manner for water users.

## Superfund

5. What is your position regarding the reauthorization of Superfund?
- PM supports the cleanup of toxic waste sites and believes that the Superfund approach to this costly task is generally the proper one. However, a reauthorization of Superfund must deal appropriately with the liability issue so that companies are not exposed to liability out of proportion to their involvement in any particular site.

## FTC/Commercial Advertising

6. Does PM support efforts to pass legislation that would reauthorize the Federal Trade Commission (FTC) and permit it to use its "unfairness" authority against commercial advertising?
- We support efforts in Congress to reauthorize the FTC, which regulates national advertising. However, the FTC's current statutory unfairness authority is vague, highly subjective, and subject to abuse.
  - We believe the First Amendment protection that the Constitution affords to commercial advertising mandates that Congress significantly restrain the FTC's unfairness authority in any bill that it passes to reauthorize the FTC.

## Deregulation/Risk Assessment

7. Is PM a strong supporter of across-the-board deregulatory initiatives?
- It's impossible to make a blanket statement concerning company positioning on regulatory matters, as each issue and its impact on the corporation is handled on a case-by-case basis.
  - However, we can generally say that we strongly support a requirement that federal agencies defer making risk assessments and/or regulations based on risk assessments until action is taken to ensure that risk assessments are based on sound science.

## **Tobacco**

### **LEAF**

8. What is the impact of the 75% domestic leaf legislation on PM USA?
- We supported the legislation for two reasons: First, we felt it was critical for the long-term viability of the federal tobacco program and domestic tobacco growers; and
  - Since we use such a high percentage of domestic leaf in our brands, we felt that this legislation would insure an adequate supply of U.S. grown leaf for the long term.
  - Because of these 2 reasons, we have every intention of being as aggressive in buying U.S. grown leaf as you would expect the market leader to be.

### **Synar Amendment**

9. What is the status of HHS's (Health & Human Services) development of regulations designed to enforce the Synar Amendment? How will the Synar Amendment be enforced?
- As you may know, the basic aim of the Synar Amendment is to prevent minors from illegally purchasing and using tobacco products. We strongly endorse this aim.
  - The content of the HHS regulations was debated last fall. We and the rest of the tobacco industry and industry allies fought strongly against unfair and unnecessary over-regulation. The final version of the regulations is now in place.
  - [More information to come in first quarter 1994].

10. Why does PM USA support the federal tobacco price support program?

- The tobacco price support program assures a steady supply of tobacco at relatively stable prices.

(Federal tobacco program: Federal government assigns certain levels of price support to each grade of tobacco at auction, i.e. a minimum price farmers will receive per pound of certain types of tobacco. The program provides farmers a stable and reasonable rate of return for their product while purchasers are able to make more accurate projections of their costs for the tobacco they buy. Producers and purchasers share in the costs of the tobacco program so the program has no net cost to the tax payer, except for routine federal administrative costs.)

### **Tobacco Imports**

11. Why did PM USA support the recently enacted Ford Amendment, requiring U.S. cigarette manufacturers to use at least 75% U.S. grown tobacco in their products during each calendar year?

- In passing this law, Senator Ford sought to bring stability to the domestic tobacco program and ensure the long-term viability of tobacco production in the U.S. PM USA believes the U.S. tobacco farmers produce the finest tobacco in the world, and Senator Ford's goals were consistent with our own.
- Moreover, PM USA is the largest purchaser of U.S. tobacco. Historically, PM has relied less on imported tobacco than our competitors, so the Ford amendment strengthened our competitive position.

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## **Tobacco Program**

12. Why does PM USA support the Federal Tobacco Program?

- U.S. flue-cured and burley tobacco is the backbone of our brands.

The tobacco support program assures a stable supply of tobacco at relatively stable prices, which is in PM USA's best interest.

## **FDA/CPSC Jurisdiction**

13. What is the prospect for enactment of legislation to place tobacco products under the jurisdiction of the Food and Drug Administration (FDA) or Consumer Product Safety Commission (CPSC)? What impact would such legislation have on the cigarette industry.

- It is unlikely that tobacco products will be placed under the jurisdiction of the FDA or the CPSC, because it's wholly unnecessary. Congress, the FTC, the FCC, the Department of Health and Human Services, the Treasury Department, and the Agriculture Department already have extensive regulatory authority over various activities in the industry.
- It is impossible to tell what the impact of such legislation would be.

14. Will the EPA's report on ETS make it harder to defeat tobacco tax increases?

- No. Tax proponents may use the EPA report in an attempt to buttress their arguments, but we doubt if it will sway legislators or voters.
- Taxes are an economic issue, and we think the social engineering agenda of the EPA report is rather transparent to most legislators.

## Food

15. What is KGF's position on the new food labeling laws/regulations?

- On the whole, we support mandatory nutritional labeling. KGF supported the original legislation, and filed extensive comments in response to the NLEA rulemaking.
- Complying with the new regulations by changing every one of our labels will require a massive effort, and involve considerable expense. But we are confident that we can meet the May 1994 deadline and fully comply with the law and regulations.

## FDA Enforcement

16. What is KGF's position on the legislation that would give additional enforcement authority to the FDA over the food industry?

- The FDA has shown that its existing powers and enforcement mechanisms – including the threat of adverse publicity, judicially-enforced sanctions, and strict criminal liability – can be most effective in ensuring industry compliance.
- Strong leadership, aggressive risk-based enforcement, and efficient management are the keys to an effective FDA.
- Given these facts, unprecedented and extreme new FDA enforcement powers are an unnecessary intrusion into manufacturing operations.

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## FDA User Fees

17. Does KGF believe food industry user fees are a proper way to help fund FDA operations?
- No. Since the FDA regulates industries which comprise nearly 25% of GNP, we feel that more realistic budgeting and a greater federal funding commitment, not ill-conceived user fee schemes, are needed to improve the agency's operations.

## RCRA

18. What is KGF's position on RCRA (Regulatory Conservation Reauthorization Act), the federal solid waste legislation?
- Past Congressional proposals focusing on mandatory recycling standards failed to adequately address the vital role packaging plays in food safety. Packaging assures the safety and integrity of food products. KGF will continue efforts to assure that food safety concerns are taken into account in any federal solid waste legislation.
  - Extensive progress has been made through voluntary industry efforts to recycle, reuse, and reduce packaging where safe and economically feasible. Market driven recycling and source reduction are working and should be allowed to continue without mandated "rates and dates" set by legislation.



19. What is the KGF/PM position on package recycling legislation?

- KGF/PM supports recycling as one solid waste management technique to help solve the solid waste problem. However, there are food safety and packaging functionality concerns associated with the use of some recycled packaging materials for food products. This is especially true for some plastic and paperboard packages. We also have limits to the amount that we can reduce our packaging and still maintain the proper strength to protect the product. Because of the importance of food and product safety, we cannot support legislation that requires us to make packaging changes without regard to food safety concerns.

#### **Food Safety**

21. What is KGF's position of "food safety" legislation that seeks to ban or severely limit the use of pesticides in the production of food?

- KGF is committed to providing a safe, plentiful, and affordable food supply for consumers, and operates in compliance with all applicable laws and regulations governing public health and safety.
- However, the zero-tolerance approach of the so-called "Delaney Clause" is based on antiquated notions of food safety, given modern scientific capabilities that can detect chemicals at very low levels that may pose only a negligible public health risk or no risk at all.

- Legislative efforts to resolve the problems created by the Delaney Clause should be guided by modern scientific and risk assessment principles, and should allow the FDA to approve safe food ingredients and the EPA to set pesticide tolerances based on a risk standard where the benefits of pesticide use are considered.

#### **Food Nutrition Advertising**

22. What is KGF's position on food advertising in light of the new rules that regulate nutritional information that can be placed on food labels?
- Harmonization of the FTC's approach to food advertising with USDA and FDA food labeling regulations is the correct policy to pursue. The FTC has broad statutory authority to prohibit false or misleading advertising.
  - However, important differences between food labeling and advertising must be recognized, and the FTC agrees with our position.

#### **Diet Supplement Legislation**

23. Why does KGF oppose legislation that would require the FDA to subject diet supplements to regulations far less stringent than that applied to foods?
- KGF believes in a level playing field among competitors, and this legislation would not accomplish this goal. We supported passage of the Nutrition Labeling and Education Act, and as of May 8, 1994, virtually all food labels will have to conform to a new set of standards promulgated by the FDA.

- Dietary supplements figure prominently in the dietary and nutrient decisions of Americans. They should be regulated in a manner consistent with foods under the NLEA. If the regulatory scheme for supplements is consistent with that of foods, consumers can be educated and empowered to make sound dietary choices.

### **Downsizing or "Packaging Shorting"**

24. What is "downsizing" legislation, and what is Philip Morris' position on such legislation?
- Downsizing legislation would require manufacturers to place a notice on a package or shelf if the contents of a product have been reduced but the package has remained the same.
  - Philip Morris believes that grocery products are accurately labeled as to weight, serving size, and price, and that downsizing legislation is unnecessary.

### **Package Legislation**

25. Do we anticipate more "rates and dates" proposals for mandated recycling in 1994?
- Yes. State affiliates of the Public Interest Research Group (PIRG), an advocacy group led by Ralph Nader, are expected to push such legislation in numerous states in 1994.
  - Philip Morris supports recycling as one of a number of solid waste management tools, but opposes these arbitrary and unrealistic packaging standards.

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## Beer

### Excise Taxes

26. The press has stated that there may be a need to tax other so-called "sin products" to achieve the funding levels that the Administration's health care reform plan will need. What is the company's position as it relates to additional taxes on beer?
- First of all, we do not agree with the term "sin tax." Our products are legal products that millions of Americans enjoy, so I surely don't think that smoking a cigarette or drinking a beer is a sin.
  - We oppose all product-specific excise taxes, including those on beer. Excise taxes are regressive and fall most heavily on middle and lower income taxpayers. In plain and simple language, excise taxes are unfair to the consumer, the grower of the products, and others, regardless of the product on which they are imposed.
27. What percentage of the price of a beer goes to taxes?
- As it stands, the federal excise tax on a \$3 six-pack of beer is \$.32. State taxes range from \$.01 to \$.50. Taxes contribute between 10% and 30% of the average price of a six-pack of beer. Even before the latest 1991 increase, taxes on beer had already exceeded the combined cost of the labor and ingredients used to brew it.
  - Beer taxes are not only regressive, but they are not a reliable source of income for government program funding. We think that increased beer taxes are unfair, as the government now makes seven times more money from beer than brewers do.

## Alcohol Initiatives

28. Could you detail your opposition to legislation which would mandate health warnings on alcohol advertising?

- Numerous studies have demonstrated that these warning messages do not reduce alcohol abuse among any segment of the population. Instead of accomplishing its objectives, these proposals divert attention and resources from other effective programs that we support to combat abuse.
- The advertising of alcohol beverages does not cause alcohol abuse, and there is no evidence to support that link.

## Lowering Blood Alcohol Content

29. What is your position regarding the threshold Blood Alcohol Content (BAC) level in drunk driving laws.

- Most states have a blood alcohol content level of .10% because science has demonstrated that at that level of blood alcohol content, most people are impaired.
- The average drunk driver has a blood alcohol content level of .17%, considerably higher than the legal limit. We need to find a way to arrest and convict these people.
- Ten states have lowered the blood alcohol content level to .08%, but have no evidence that this has led to less drunk driving.
- To make more people "legally" drunk by lowering the blood alcohol content level is not a realistic answer from a law enforcement point of view.

Litigation

**2022990309**

## Litigation

1. What is the status of the lawsuit between ConAgra and Oscar Mayer?
  - A jury in a Wisconsin federal court found that two Oscar Mayer patents were valid and willfully infringed by ConAgra. The jury awarded Oscar Mayer \$9.8 million actual damages, and the court entered an injunction against ConAgra enjoining further infringement.
  - The patents relate to poultry products in which a lactate salt is added in an amount effective to delay the growth of Clostridium Botulinum. All poultry processors who use the patented invention are paying royalties except ConAgra, who sold infringing products under the Healthy Choice and Butterball brand names. Oscar Mayer is also asking the federal judge who presided over the trial to increase the award based on the willful conduct by ConAgra. Oscar Mayer believes the judgment is sound and will survive any post judgment motion or appeal by ConAgra.

## Human Resources

2. What is the status of the human rights claims at Fulton Brewery that were covered by the New York Times?
  - Three major employment related cases involving the Fulton Brewery remain active. We do not feel that their claims have any merit.
  
3. Are there any class action lawsuits that have been filed by any group as a result of the closing of the Fulton Brewery?
  - We are not aware of any class action lawsuits that have been filed as a result of or related to the Fulton Brewery closing announcement.
  
4. What has been done about the harassment situation at Fulton Brewery / Miller Brewing Company?
  - Allegations of harassment at Fulton are the subject of litigation; so, of course, we cannot comment on that.
  - However, Philip Morris has a corporation-wide policy prohibiting any form of harassment. Any suspicion or charge of harassment at Fulton, or elsewhere, is taken very seriously and acted upon.



**CONFIDENTIAL**

5. In the later portion of 1992 you terminated Allene Roberts, a black woman who had 25 years with the company, building successfully a good reputation for Philip Morris with minority constituencies all over the country. We understand that she was asked to leave and was escorted from the building. Is this an example of the company's commitment to diversity for long-term minority employees?
- (Allene Roberts was a Manager of Public Programs in the Corporate Affairs Department and a 25-year employee. She was terminated in November 1992. In December, she sued the company alleging race and sex discrimination and defamation of character).
  - No. This matter relates only to one former employee, Mrs. Roberts, and in no way affects Philip Morris' total commitment to diversity within its workplace.
  - Regrettably, Mrs. Roberts was let go after a general audit of her department which focused partially on the activities and practices of the people in that department. Questions were raised about her activities and practices. Specifically, those questions related to violations of expenses and contracting policies to which all our employees, with 25 days or 25 years of tenure, must adhere.
  - It was in consideration of her 25 years of dedicated service that she was given months to resolve the questions. In the end, Mrs. Roberts' positive accomplishments could not be permitted to offset apparent misconduct which was discovered in the audit and which was discussed with her in great detail before the action was taken.

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- We are well aware that over the years while she worked for Philip Morris, Allene Roberts made many friends for this company. She did so by representing accurately to the community Philip Morris' commitment to social and economic justice. We hope that whatever the outcome of the litigation with Ms. Roberts, those friendships based on that commitment can endure.

## Seinfeld v. Bailey

6. We have heard about Seinfeld v. Bailey. What is it, and what is its posture?

- On April 7, 1992, a shareholder derivative action styled Seinfeld v. Bailey, et. al. was filed in New York State Supreme Court, New York County, alleging that in September 1991, Philip Morris Companies Inc. ("PM"), a Virginia corporation, improperly awarded shares of restricted stock and stock options to the company's former chairman, Hamish Maxwell. The complaint alleges that the grants were unlawful and wasteful gifts of corporate assets which were not properly authorized by the Board.
- Subsequently, defendants moved to dismiss, asserting that because the grant occurred in January 1991 at a time when plaintiff was not a shareholder, plaintiff lacked standing to bring the action. Plaintiff's counsel later moved to intervene with a new plaintiff-shareholder. Defendants cross moved to oppose the intervention and have amended the original motion to dismiss by adding a second ground for dismissal, *forum non conveniens*.
- On December 9, 1992, the matter was submitted to Judge Peter Tom, who granted defendants cross motion and dismissed the action on April, 1993. Plaintiffs have appealed the dismissal. Oral argument on the appeal was taken in New York Supreme Court, Appellate Division, First Department on December 1, 1993. A decision is expected in the first quarter of 1994.

## **In Re Philip Morris Securities Litigation**

7. We have heard about In Re Philip Morris Securities Litigation. What is it, and what is its posture?

- On April 2, 1993, Philip Morris Companies Inc. and certain of its officers were named as defendants in the first of several purported shareholder class actions which were filed and later consolidated in the United States District Court for the Southern District of New York as In Re Philip Morris Securities Litigation.
- These lawsuits allege that the Company violated federal securities laws by making false and misleading statements concerning the effects of discount cigarettes on the Company's premium tobacco business in the period January 7 to April 2, 1993, the latter of these being the date upon which the Company announced changes in its marketing and pricing strategies for both premium and discount brands.
- On September 10, defendants moved to dismiss the action and filed motions to stay discovery and consideration of class action certification pending the decision of the court on the Motion to Dismiss. The parties presented oral argument on October 22. On October 25, defendants' motions to stay were granted.
- The court heard oral arguments on the Motion to Dismiss on December 3. A decision is expected prior to March 1, 1994.

## Tobacco

### EPA/ETS

8. What is the status of the EPA law suit? What would be the impact of a win for PM and the other plaintiffs? What would be the impact of a loss? How much has the suit cost the industry? PM?

- PM and several other businesses and organizations in the tobacco industry have sued the EPA.
- At present (as of 11/11/93) the EPA has filed a motion to dismiss the case. The EPA's motion does not address the merits of our law suit. We are awaiting the decision of the judge.
- The impact of a win would be to vindicate our position that the EPA was not justified in taking the actions it did. We hope that the public and policy makers would then reconsider unreasonable restrictions and bans that were based on the EPA risk assessment of ETS. Going forward, we expect that the EPA's demonstrably flawed risk assessment would not be used as a basis for any new sanctions against smokers.
- Because the EPA's motion to dismiss is technical and does not discuss the merits of the case, a win for the EPA will not be a vindication of the EPA's action in arriving at its risk assessment on ETS.
- We do not, as general policy, comment on the costs of litigation. I will say that the loss to smokers and to Philip Morris of letting the EPA risk assessment go unchallenged is potentially much higher than the costs of bringing the suit.

9. Have there been more lawsuits as a result of the EPA report of January 7, 1993, putting ETS on the EPA's Group A carcinogen list?

- At present (as of 11/11/93) there are 6 ETS cases pending against the industry, and Philip Morris Incorporated is involved in all of them. Of those cases, 3 were filed after the EPA risk assessment was published, and all 3 make reference to that risk assessment.
- While one can't say that the EPA report was the sole factor driving these new law suits, clearly that report had some impact on the filing of the new suits.

10. Is there any danger that an adverse outcome of the smoking and health litigation against the tobacco company will affect the other operations of Philip Morris Companies?

- The Company altered its corporate structure in 1985 to reflect more accurately the breadth of its geographic operations and business diversification.
- The operating companies now exist as first tier subsidiaries of the parent company. Each is operated separately, reporting its financial results to the parent.
- The company's tobacco subsidiary, Philip Morris Incorporated, believes, and has been so advised by counsel, that it has a number of valid defenses based upon preemption as decided in 1992 by the United States Supreme Court. PM Inc. will continue to vigorously defend all such cases.

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- Admittedly, it is not possible to predict the outcome of this or any other litigation.
  - Management believes, however, that the outcome of pending litigation, no matter what those outcomes may be, will not have a material adverse financial impact upon Philip Morris Incorporated, nor upon the other operating companies of Philip Morris Companies Inc.
11. Do you expect liability suits because of secondhand smoke?
- While there are a few such lawsuits pending, we do not believe a plaintiff will be successful because the scientific evidence does not support such claims.
12. How many smoking and health product liability suits are pending against Philip Morris? Against the cigarette industry?
- To be updated: As of 12/12/93, there are 51 suits pending against the industry, including 23 suits against Philip Morris.
13. What defenses has Philip Morris asserted in response to existing smoking and health product liability suits?
- (a) Federal preemption;  
(b) general causation – does smoking cause disease;  
(c) specific causation – did smoking cause this plaintiff's disease; and  
(d) contributory fault – did the plaintiff smoke while aware of the claimed health effects of cigarette smoking.

14. Have adequate reserves been established to reduce the financial risks associated with pending and future smoking and health product liability suits?

- Because of our success in defending these suits, we do not presently believe that the pending suits will have a material adverse effect upon the financial condition of the Company, and, accordingly, have established no reserves for potential adverse outcomes. We are constantly reviewing our reserve requirements, and will take action if and when it becomes appropriate.



## Legal/Regulatory

15. What is going on with the investigation being conducted by the U.S. Attorney for the Eastern District of New York into allegations of industry misconduct?

- This is a legal matter, and it is our policy not to comment on pending legal investigations.

16. Is the use of ETS an issue in child custody cases going to have an impact on PM's tobacco business?

- It shouldn't. There are only a few such cases and even in those, smoking has been only one factor taken into consideration. We think it is improper for people who want to ban smoking to inject the issue of family break-ups into the debate.
- [More TK.]

## General

17. How many asbestos cases are pending in which cigarette manufacturers have been named defendants? Will those cases be more difficult for Philip Morris to win?

- There are 4 lawsuits pending against cigarette manufacturers in which asbestos companies are also defendants. Philip Morris is a defendant in two cases: the Pitre and Williams cases. The issues in these cases are substantially similar to those against the cigarette manufacturers only, and therefore, while the outcomes are not certain, we believe we will win these cases also.

18. What is the status of the Nabisco Ready-to-Eat Cereals anti-trust suit in New York?

- The suit is still pending, but we consider it is unjustified.
- We consider that the transaction is closed, and are making plans to integrate the business into our operations.

## **Beer**

### **Pabst**

19. What is the result of the Pabst lawsuit against Miller Brewing Company and Philip Morris Companies Inc. over the Molson acquisition?

- The case was voluntarily withdrawn by Pabst in September confirming our earlier view that the case was without merit. No settlement monies were paid by Miller Brewing Company or Philip Morris Companies Inc.

### **Labatt**

20. Why is Labatt suing Miller Brewing Company and Molson, and do you think they will be successful in winning the lawsuit?

- Labatt filed suit against both Miller Brewing Company and Molson for the use of the term "Ice Brewed" and "Ice Beer" in Miller's and Molson's ice beer advertising.
- We believe Labatt is trying to appropriate for itself a descriptive brewing term that has been in use for years. "Ice Beer" was developed by German brewers in the last century and a beer known as "Eisbock" has been produced in Germany as well as Ontario.

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- We believe Labatt's legal action in the United States will prove as groundless and frivolous as a similar action they initiated against Molson in Canada. Additionally, this legal action has not affected our national expansion plans for Icehouse or Molson Ice.

### Product Defects

21. Why does Philip Morris oppose legislation to limit the ability of trial courts to issue protective orders in litigation that keeps information about product defects or other public hazards away from the public?
  - Existing court rules generally grant trial judges discretion to keep information confidential. This allows protection of trade secrets, personal medical records, or other information produced during the discovery process and not introduced at trial which could be taken out of context.
  - The plaintiff's bar hasn't shown that trial judges are abusing this discretion, so other legislation is simply unnecessary.
22. What is the Company's position on the lawsuit brought by former employees at the Kraft Decatur, Georgia plant?
  - A few employees have filed a lawsuit challenging the Company's severance pay practices. Those employees who have complied with the requirement that a release be signed have received their full severance benefits. Only a handful have failed to comply with the requirements. KGF has filed a motion to dismiss the case and is confident that there has been no violation of law. A decision is expected at any time.

Lobbying

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## Lobbying

### Cigarette Excise Taxes

1. What is PM doing to combat the Clinton Administration's proposal to raise cigarette taxes by \$.75 per pack?
  - The company has been working very closely with Senators and Members of the U.S. House of Representatives in whose states and congressional districts we have plants and other cigarette-related facilities to defeat the proposal. Other manufacturers have been doing the same. As a result, there have been concerted efforts for the past 12 months by a good number of representatives in Congress to inform the President, the First Lady, and other key Administration officials of their opposition to the \$.75 per pack proposal.
  - In addition, we have reached out to our employees, tobacco farmers, vendors, suppliers, and others whose livelihoods and businesses rely on the sales of tobacco products. We intend to continue these efforts through the entire debate with the goal of defeating the excise proposal.

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### Public Policy Positioning/Third Party Support

2. Aside from lobbyists and trade associations, how else do we influence public policy debate?

- PM is a strong supporter of public policy research institutes, popularly called "think tanks."
- Via research and analysis, assessment of policy alternatives, coalition building, forums, and a variety of other communication strategies, these organizations can influence the policy debate, the legislative climate, and public opinion on issues of interest to the company.
- They also can provide an "early warning system" concerning legislation, regulation, and changing public opinion (i.e., spotting public policy issues in their emerging stage before they reach legislative and/or regulatory consideration). Over time, the activism of these groups has led to fundamental changes in the policy climate in which we operate.

3. There have been numerous reports of tobacco industry "influence peddling." Specifically, Philip Morris has been accused of using substantial corporate money to defeat health legislation at the state and federal levels. Aren't the public and stockholders entitled to know how much Philip Morris is spending to influence public policy?

- Philip Morris currently complies with all required disclosures for lobbying expenses. If the law changes, we will, of course, comply with those changes.

4. Isn't it true that you use your company's tremendous financial clout to influence tobacco-related legislation?

- We exercise our constitutional right to discuss with federal, state, and local elected and appointed officials issues that affect our shareholders, employees, communities, customers and consumers.
- All our political contributions or fund-raising activities conform strictly to federal, state and local laws.

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Miscellaneous  
Issues

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## MISCELLANEOUS ISSUES

To date nothing under Miscellaneous. We will try to keep it that way.

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Restructuring

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## Restructuring

1. Is this restructuring directly related to the cigarette price war you started in April?
  - No. But let's clarify a few points.
  - First, we did not start a price war. The pricing strategy we announced on April 2 was our response to changes in the U.S. tobacco business brought about by a slow-growth economy and the resulting impact on consumer buying habits. We had to take aggressive action to protect our premium brands — particularly Marlboro — against the share gains registered by discount cigarettes. In essence, we wanted to prevent tobacco from becoming a commodity product devoid of brand equity. Thus far, our strategy has proven successful — third quarter shipment share data show Marlboro has 25.7% of the market up from a low of 21.5% in the first quarter.
  - Second, the restructuring plan we announced today addresses the continuing volatility of an intensely competitive consumer products marketplace. While market conditions and outlook for our domestic tobacco business are improving, developments in 1993 have led us to expand and accelerate the pace of our ongoing cost reduction initiatives in all of our business units, not just our domestic tobacco business. This effort will improve our bottom line and free up cash for future growth.

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2. Are you focusing most of the cutbacks in your domestic tobacco business because of its depressed earnings?
  - This is a worldwide restructuring that will affect each of our consumer products businesses. The effort is not limited to domestic tobacco.
3. How do you see the restructuring improving your competitive position against other tobacco companies?
  - The restructuring will significantly reduce our cost structure and improve the future growth, profitability and cash flow in each of our businesses — not just tobacco.
4. What factors did you consider when making decisions on plant closings and downsizings?
  - We examined each facility for its ability to contribute to our long-term growth and profit goals. To keep our profits growing as we respond to consumers' demands for value, we are closing or downsizing plants that represent inefficient or excess capacity.
5. In your news release, you provide after-tax figures for charges relating to restructuring and SFAS No. 112. What is the total pre-tax charge you are taking?
  - As you noted in our news release, we are taking two separate actions that will lower our 1993 earnings by \$952 million, after taxes. For accounting and reporting reasons, we need to be careful when discussing pre-tax charges.

*(continued on next page)*

- The first action is a restructuring charge to cover the costs of our restructuring plan, which includes plant closings, downsizings and other business consolidations. This charge will be \$457 million after taxes, or approximately \$741 million before taxes. The gross, or pre-tax, amount will not affect our full-year operating companies income.
- The second action is a \$495 million after-tax charge for the adoption of SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Under the accounting standard, we must now expense the cost of severance benefits over the working lives of our employees. Previously, we did it at the time when an employee was terminated.
- This charge has two components: The normal recurring charge for the annual ongoing cost of anticipated severance benefits, and the cumulative, or "catch-up," adjustment.
- The recurring charge, before taxes, will lower our operating companies income. Adopting SFAS NO. 112 means that, in addition to \$31 million we have already expensed, we have to book an incremental charge of about \$29 million before taxes, or about \$18 million after taxes. Beginning in 1994, the recurring charge will be about \$60 million.

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- As with any significant accounting change, the cumulative adjustment is net of tax; in this case, the net-of-tax adjustment will be \$477 million. This amount will be presented in our financial statements after Earnings Before Cumulative Effect of Accounting Change. The gross, or pre-tax, equivalent of this charge for the implementation of SFAS No. 112 is approximately \$771 million, but will not lower operating income.
  - Adding the 1993 incremental charge of \$29 million before taxes, and the approximate \$771 pre-tax equivalent of the net-of-tax adjustment, the total pre-tax effect of adopting SFAS No. 112 is approximately \$800 million.
6. Which business units are affected by the restructuring?
- Line and staff functions in all of our consumer products businesses will be affected by the restructuring, although specific decisions have yet to be finalized.
7. When will you announce the specifics of plant closings and other restructuring actions?
- We cannot provide details about specific plants or work sites at this time. However, as plans are finalized, our operating companies will announce specific actions as they are implemented in the next days, weeks and months.

8. What is the timing of these plant closings and over what period will you spread out the payments?
- See previous question. Not all plans are finalized, but we anticipate the restructuring plan will be fully implemented by the end of 1997.
9. When do you expect to realize most of the savings from the restructuring?
- We expect a relatively quick payback from the restructuring — about three years. When fully implemented in 1997, annual savings should reach about \$1 billion before taxes, \$600 million after taxes.
10. Do you anticipate combining any of your existing business units as part of the restructuring?
- At present, we do not anticipate combining any of our existing business units. But as we continue to grow and respond to changing market conditions, we constantly look for ways to improve synergy between our businesses and take advantage of economies of scale.
11. Is the September merger of Kraft General Foods Europe and Jacobs Suchard covered in this restructuring charge? What was the charge for that action?
- The merger of KGF Europe and Jacobs Suchard is included in the current restructuring charge. We cannot break out specific charges by business unit, however.

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12. Do you plan to sell underperforming assets as part of the restructuring? Which businesses will you exit? Why?

- We will exit some businesses that no longer represent a strategic fit for Philip Morris, but we cannot provide details at this time. None of the businesses, however, will be our core consumer products businesses.

13. What will you do with the proceeds from asset sales?

- We haven't yet determined how we will use the proceeds. They may be reinvested to grow and strengthen our core businesses.

14. What percentage of the workforce reduction will be salaried employees? Hourly? How many domestic employees will be let go? How many overseas?

- We cannot provide a breakdown between salaried and hourly employees at this time.
- [If asked: Worldwide employment currently is at 168,000 — an increase of about 7,000 since the end of 1992, due to various acquisitions in that time. At year end 1992, about 43% of Philip Morris' workforce was located outside the U.S. The percentage is now slightly higher, but we can't provide an exact figure at this time.]

15. How are the workforce reductions broken down by operating unit?

- We cannot comment on specifics of our workforce reductions, since all decisions have not been finalized.



16. Of the 14,000 jobs you plan to cut, how many will come from early retirement and attrition, and how many will be actual job losses?
- We cannot comment on specifics of our workforce reductions, since all decisions have not been finalized.
17. How will your earnings and cash flows be impacted in 1993 and 1994 by the costs of the restructuring?
- For 1993, the combined charges will lower our reported full-year net earnings by \$952 million, or \$1.08 per share, but will have no material impact on cash flows.
  - For 1994, there will be no negative impact on earnings from the restructuring. We do expect to realize significant savings next year from our actions, but we can't predict how much of those savings will reach the bottom line. There will be some cash flow impact as the result of severance payments, but we can't estimate how much.
  - The restructuring plan, however, will have a positive impact on our long-term profit picture. We expect to reduce our cost base by approximately \$1 billion (pre-tax) or \$600 million (after-tax) by 1997. Some of the savings may be reinvested in building our businesses.
18. Do you plan to cut capital spending as part of the restructuring? How about marketing and research and development spending?
- We can't comment on our capital spending, marketing and R&D plans for next year.

19. Which plants are you planning to upgrade with new manufacturing equipment?
- We can't disclose specifics at this time.
20. Do you plan to centralize any shared administrative services as part of the restructuring?
- There may be some consolidation of administrative services, such as finance and human resources, in each of our operating units, but those decisions have yet to be finalized.
21. What are your projections for productivity improvements resulting from the restructuring?
- See answer 17. Repeat savings of \$600 million after tax by 1997.
22. Do you plan additional job cuts in the future?
- We believe the steps we are taking now are necessary to achieve superior profit growth for our shareholders given current conditions.

23. When was the last time you had a major restructuring?

- This is our first across-the-board restructuring. Past restructurings have focused on individual business units, mostly food. We have used restructuring reserves twice in the past four years.
- In 1989, we created a \$179 million reserve to reorganize our Maxwell House coffee division in the U.S. The reserve was used to pay for the closing of our Hoboken plant and restructuring of our remaining manufacturing operations. These actions contributed to Maxwell House becoming profitable in 1990. This year, we project that the division's operating income will approach \$100 million for the first time since 1985.
- In 1991, we took a \$455 million write-off, approximately \$250 million of which was related to restructuring our Oscar Mayer unit in the U.S. This restructuring has also performed well. By closing two turkey plants and two red meat plants, the division has been able to reduce headcount by over 25% since mid-1991, realizing ongoing annual savings of more than \$50 million.

24. You mentioned in previous analysts meetings that you have reduced your cost base by \$2 billion since 1992. What steps did you take to achieve those savings?

- In North American food, for instance, we have completed or announced closings of 15 plants, and of several distribution and other facilities, since the beginning of 1992.

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- Together with early retirement and other programs, these measures will have saved us nearly \$200 million by the end of this year. Productivity and synergy actions should save us another \$300 million, bringing the two-year total to half a billion dollars.
- In fact, we have been cutting costs throughout our domestic tobacco, food and beer businesses. Since 1992, we have offered early retirement programs across our U.S. operations, including Miller, Philip Morris U.S.A. and our New York corporate headquarters. We expect our U.S. headcount to be down by almost 10,000 employees by the end of this year, compared to the end of 1991, excluding acquisitions.
- Turning to our overseas food operations, in Europe, productivity and synergy savings this year alone should come to more than \$120 million. And through steps like management and sales restructurings, manufacturing improvements already identified through benchmarking studies, and rationalized distribution, we expect another \$211 million in savings through 1995.

25. With the passage of NAFTA, are any of the job cuts you are announcing today in reality manufacturing jobs that you plan to shift to Mexico?
- We are not shifting manufacturing jobs to Mexico as part of the restructuring plan. There is absolutely no connection between our plan and the North American Free Trade Agreement.
26. Why are you making this announcement on the day before Thanksgiving? The timing looks bad to employees right around the holidays
- There is never a good time to announce a downsizing. However, our Board meets regularly on the last Wednesday of the month (except July or holidays; in April it's the Thursday of the annual meeting) and transacts business that is in the interest of the shareholders of Philip Morris.

SFAS No. 112

27. Why are you adopting SFAS No. 112 at this time?

- All companies must adopt SFAS No. 112 by January 1, 1994. We are planning to adopt the accounting standard in the fourth quarter of 1993, retroactive to January 1, 1993.

28. What impact will this have on 1993 earnings?

- The total effect of adopting SFAS No. 112 will be an after-tax adjustment to net earnings of \$495 million (approximately \$800 million pre-tax) for 1993. This total has two components: first, a \$477 after-tax, one-time cumulative adjustment ("catch-up" charge, equivalent to approximately \$771 million pre-tax) and second, an \$18 million after-tax (\$29 million pre-tax), current-year incremental charge against 1993 operating companies income. Previously, the company expensed such benefits when severance occurred.

29. How much of this charge will cover severance costs associated with the restructuring you announced today?

- We can't provide that figure at this time.

30. Explain why this charge will have no impact on 1993 cash flow.

- Adoption of SFAS No. 112 will result in a non-cash charge to cover future severance payments. There is no impact on 1993 cash flows.

31. What is the ongoing annual charge you expect from SFAS 112?
- Pre-tax, approximately \$60 million per year.
- 32 If you were not forced to adopt SFAS No. 112 at this time, how large a reserve would you have had to establish to pay for the restructuring?
- We can't comment on hypothetical questions.

## General Corporate

33. What will your debt-to-equity ratio be at year-end? What level do you expect next year?
- We expect our debt-to-equity ratio to be about 1.40 to 1 at year end. Excluding the restructuring charge and SFAS No. 112 adjustment, our debt-to-equity ratio will be 1.29 to 1.
34. How will your credit ratings be affected by the restructuring?
- We do not anticipate that our credit ratings will be affected by the restructuring charges.
35. Do you expect to resume repurchasing shares?
- We have \$1.2 billion in an existing two-year authority to repurchase shares. The company will take that action if it deems appropriate.
  - [If asked, the authority expires in May 1994.]
36. We understand that you are adding Stephen Wolf to your board of directors today. Was he consulted on the restructuring plan?
- Yes he was consulted. He was elected prior to the Board making its final decision.



## Beer

37. On December 1, Miller announced the closing of its Fulton, New York brewery. How many employees will be affected?
- About 900 employees at the Fulton Brewery were advised on December 1 of a plan to close the facility in two phases over the next year.
  - We are currently discussing additional reductions of salaried union represented employees with union officials.
  - In total, about 1,200 employees will be affected by the restructuring over the next year.
- 38.. How was it announced?
- Employees were notified by their supervisors, and an employee announcement and press releases were issued that same morning.
39. Are severance packages being offered.
- Yes, to salaried employees. As a matter of policy, we do not discuss the details of these provisions, except to say they are more than fair.
40. Will there be more terminations. Is it over?
- We expect to continue to streamline as business needs dictate; but we believe the majority of the cuts are behind us. What happens in the future will depend on our business results and the competitive environment.
41. What will Miller's employment be after the reduction in workforce?
- About 7,800 after the Fulton closing (including Molson and Leinenkugel).

## Food

Information will be included as Kraft announce its restructuring plans.

42. What are our plans for restructuring KGFNA's food business?

- KGFNA is a strong and healthy competitor with leadership positions in most of our categories. Our financial results this year have been among the best in the food industry due, in large, part, to aggressive cost control. Even so, we still have more manufacturing and distribution capacity than optimal. In addition, as the organization structure is streamlined, staffing in some parts of the company is greater than our needs require. So, while our performance today is good, we know it can be better. It is essential for our future competitiveness that we continue to aggressively reduce costs and improve efficiency.
- Many of KGFNA's actions covered by the restructuring charge are already underway. These include:
  - The consolidation of Lender's West Haven, CT, headquarters into GF Baking in Bayshore, NY.
  - The reengineering of finance and human resources transaction areas.
  - The refocusing of the technology and human resources organizations.
  - Sales force consolidations within Kraft USA and General Foods USA.

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- These steps already announced and underway are expected to account for a large portion of the overall charge. As for the remaining actions we will be taking over the next several years, they will be targeted at specific locations and functions where significant cost savings are possible.
- While actions such as these are always difficult, they represent an important investment in our future, and once completed, they will help us become an even stronger company than we are today.

## Tobacco

43. What are the reasons for the restructuring of PM USA that was first announced in December, 1991? How is it going? How long will it continue?
- As a part of our ongoing business activities, we constantly evaluate all aspects of the way we do business. Given the rapidly changing industry we are in, such self-evaluation is not just a prudent approach to business, it's imperative if we want to stay competitive and profitable.
  - Competitive pressures and the changing marketplace mean that increasing manufacturing efficiency is absolutely critical to future revenue growth.
  - Our restructuring efforts to date have been quantifiably successful. We have taken literally millions of dollars in costs out of our manufacturing operations.
  - We fully expect to continue restructuring and realignment in pursuit of increased efficiencies and cost savings.
44. What has been the impact of workforce downsizing in Richmond and elsewhere. Will there be more?
- Since 1991, the PM USA workforce has been reduced by more than 10%.
  - TK
45. Will you be manufacturing in 3 cities five-to-ten years from now?
- That is our current intention.

46. What are you doing to improve productivity?

- Improving productivity has always been a priority at PM USA, and we have achieved steady improvement in this area for the past decade and more.
- More recently, PM USA, over the past few years, has created, tested, and refined a total quality management program. The program demonstrably increases productivity, and at a rate that is significantly higher than comparable, more localized efforts.
- 1994 is the first full year the total quality program, which we call the Manufacturing Improvement Program, will be in place and operating in every one of our manufacturing centers. We expect to see our productivity increase noticeably this year and in future years as a result of this program.

47. What is the status of the Cabarrus expansion?

- We are continuing construction according to our revised schedule. Some production will begin in 1994. Additional production will come on line as called for to meet demand.

48. Isn't it inconsistent to be making workforce reductions in Richmond while expanding Cabarrus? Why not just put a hold on Cabarrus and pick up any needed production in Richmond?
- In the competitive and rapidly changing business we are in, we simply have to focus on lowering our cost per unit. On a per unit basis, we can make cigarettes most efficiently at lowest cost at our most modern facility — Cabarrus.
49. How can you justify layoffs and plant closings while you're adding cigarette production volume through plant acquisitions overseas?
- Domestic downsizing and overseas acquisitions are 2 separate issues and it does not make sense to link them. Through our overseas acquisitions, in addition to obtaining factories, we acquire local brands that appeal to local tastes, and we also gain immediate access to key local distribution systems.
  - Because of our global packaged consumer goods scope, we identify other opportunities. The resulting synergies provide us with increased competitive advantage and, ultimately, increased shareholder value.
50. Will the PM USA -Stockton Street facility in Richmond be closing and will there be further layoffs?
- We are constantly evaluating our business needs in order to remain competitive. Beyond that, any comment would be speculation
  - [to be updated.]

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51. What are the long term plans for your Louisville facility?

- We greatly value our Louisville employees and the quality of the products they produce, and we intend to remain in Louisville for the foreseeable future.

Stock Matters

**2022990351**



## STOCK MATTERS

(Based On Current Market Conditions)

1. How can you call your domestic cigarette pricing strategy a success when Philip Morris stock is \_\_\_\_ (TK) percent lower than it was before your April 2 announcement?
  - We believe our pricing strategy has been successful.
  - We defended premium brands, and regained market share.
  - We slowed growth of discount category.
  - Recent shipment share data show that Marlboro has TK% of the market, up from a low of 21.5% in the first quarter of 1993 — before we implemented our pricing strategy.
  - PM has the world's best brands — they create value and generate profits for your company.
  - We believe our actions, while reducing the value of your stock in the short-term, will ultimately result in a more valuable and profitable Philip Morris.
  
2. What long-term impact will the restructuring you announced on November 24 have on Philip Morris stock?
  - We believe the restructuring will help us become the low-cost competitor in all of our core operations.
  - Cost management is vital in a slow-growth economy.
  - The restructuring will significantly reduce our cost base and improve our future growth, profitability, and cash flow.

(Assumes Board Does Not Raise Dividend At February Meeting)

3. Why did the board of directors decide not to increase the dividend? When can we expect to see an increase?
- We continue to face a difficult and uncertain economic environment.
  - The board felt the most prudent course of action would be to maintain the dividend at its current level.
  - The board discusses the dividend each quarter.

(Assumes Board Raises Dividend At February Meeting)

- 3A. You recently raised the dividend by TK%. Given the domestic cigarette price increase you announced at the end of last year, plus cost reductions from the restructuring, why didn't you raise the dividend even higher?

- The board decided that the increase was appropriate given the company's current financial picture.
- Some of the cash generated by our cost-cutting activities is being re-invested in our businesses — to help grow our company and build a stronger and more profitable Philip Morris over the long term.

4. What is the current payout ratio?

- 1993 payout ratio was 57% (based on \$4.60 consensus earnings estimate and current dividend of \$2.60).
- We can't project what the payout ratio will be in 1994.
- Current consensus estimate for 1994 earnings is \$5.25; at current \$2.60 dividend, payout ratio would be 50% in 1994.

5. Do you think Philip Morris stock is undervalued at this point?
- Yes, we do. PM has the world's best brands.
  - We continue to be among the world's most profitable companies.
  - We have strong cash flow.
  - We are a diversified company — a decreasing share of our income is derived from domestic tobacco.
  - Our international businesses are showing good growth and momentum.
  - We are better positioned than most companies to compete in slow-growth world economies.
6. Do you expect to resume repurchasing shares?
- We have \$1.2 billion in an existing two-year authority to repurchase shares (that authority expires in May, 1994).
  - The company will take that action if management deems it appropriate.
7. Why did the stock price go down last year?
- The price decline does not reflect any broad, company-wide problems in our business, nor any basic weakness in our financial position.
  - Negative reaction to our domestic tobacco pricing strategies
  - Threat of higher excise taxes.
  - Tobacco industry is under attack.
  - Litigation/product liability remains a concern.
  - Stock is currently up TK% versus a low of \$TK per share in 1993.

8. What plans do you have to increase stock price?
- Shareholder value is top priority at Philip Morris.
  - Over long term, share price is determined by earnings growth. We are committed to achieving strong growth.
  - Restructuring improves our position as low-cost competitor — frees up cash for strategic acquisitions and growth.
9. What steps are we taking to counter moves for divestment of tobacco shares by institutional investors?
- We make ourselves available to answer questions from any institution considering divestment.
  - Have developed extensive position papers for financial analysts and institutions.
  - We emphasize very strong long term returns achieved from investment in PM.
10. At what point would you consider a stock split?
- We have split stock on six occasions since 1965, and one share of stock then is worth TK shares today.
  - Splits have occurred at prices ranging from \$60 to \$160.
11. What about two classes of stock?
- We have looked at two classes of stock as well as other alternative structures.
  - We are constantly looking for ways to enhance shareholder value.

12. Is Philip Morris contemplating issuing a separate class of stock pegged to the performance of its food business, like RJR?
- We are continually evaluating the merits of different methods of handling stock matters. No firm decision has been taken on this yet.
  - Again, our objective is to increase shareholder wealth.
13. Have certain investment firms changed their recommendation to buy Philip Morris?
- There have been many changes in analyst recommendations in the wake of our April 2 announcement.
  - Much of the recommendations are based on the current volatility of the domestic tobacco market.
  - To be updated: As of yesterday, a majority (TK%) of analysts are recommending a "buy" on PM stock.
14. Who owns Philip Morris?
- Large institutional investors own approximately 70%. (check).
  - Individuals, including employees, own remaining 30%. (check).
15. Have any officers or directors sold Company stock on account of smoking and health products liability suits against PM and cigarette industry?
- Cannot say with certainty since we do not know why our officers and directors might sell stock. But to the best of our knowledge, no.

Taxation

**2022990357**

## **Taxation**

### **Taxes/Budget**

1. How can Philip Morris justify its support for the Budget Agreement Congress passed that contained sharply higher taxes?
  - The strength of the U.S. economy is vital to Philip Morris, and it's important that we cooperate with officials in the executive and legislative branches.
  - The Budget Agreement was far from perfect, but it did take a significant step in cutting federal spending in an effort to close the large federal deficit. In our continuing discussions with government officials, we continue to stress that the solution of our long-term viability demands that we control federal spending rather than increasing taxes.

### **VAT/Consumption Taxes**

2. Various Members of Congress have indicated that they will introduce legislation to encourage savings through the imposition of VAT taxes or other forms of consumption taxes. What is Philip Morris' position on these types of taxes?
  - As a multi-national company doing business virtually all over the world, we have first-hand knowledge of how value-added taxes and other consumption taxes are imposed.
  - Also, we formed an internal task force late last year charged with determining where PM should position itself concerning potential adoption of a VAT.
  - The task force concluded that imposition of a VAT would be in the company's interest only if it was a replacement for existing or proposed additional excise taxes on cigarettes, or, as a replacement for some or all of the corporate income tax.

- Particularly under the scenario of an add-on VAT, it is only the zero-rating/exemption of food products under which PM is not hurt measurably. Prohibitively high increases in cigarette excises have a much greater impact on our profitability than does imposition of a VAT, even if preferential treatment is granted to food products.
- Experience has shown that value-added and ad valorem taxes, especially if they are layered upon other taxes such as excise taxes are regressive, difficult to comply with, and an impediment to growth. They also threaten our ability to create jobs and enter new markets. We are, however, aware of the large federal budget deficit and the federal government's search for new revenue sources.
- Proponents believe that the current tax code is biased towards consumption and penalizes savings. We currently are reviewing all tax proposals to see how they will affect our product lines and what they will have on the profitability of Philip Morris. While we have had some negative experiences in the European community from the imposition of value-added taxes and excise taxes, we intend to participate in the debate here in the U.S. as the issue begins to unfold in the next several years.



### **Advertising Deductibility**

3. Philip Morris spends million of dollars on advertising annually. What is our position on legislative proposals that seek to eliminate or reduce the tax deductibility of advertising costs?
- We oppose such proposals. Philip Morris advertises, as do all consumer product companies, to generate sales and revenue, which is subject to taxation as ordinary income. Therefore, we maintain that advertising expenses should be fully deductible as part of the cost of sales and that all advertisers be treated equally and fairly under the tax code.

### **Health Care Reform/FET (General)**

4. What is your feeling about an FET (Federal Excise Tax)?
- We support the President's desire to reform health care. To achieve that goal, we must contain the rapidly escalating costs of our system while maintaining its high quality. It is, however, unjust and unfair to single out our industry and our consumers to pay for the nation's health care program — a program that will presumably benefit all. Doing so is an obvious effort to restrict our ability to market our product and regulate consumer behavior.
  - Irrespective of the merits of any health care reform initiative, it is simply unfair to burden a single sector of the economy, namely tobacco consumers and manufacturers (not to mention all tertiary/supplier industries), to fund a national proposal that purports to benefit all citizens.

- We strongly believe that if health care reform legislation must be paid for through increased taxes, those taxes should be progressive and broad-based.
  - We are opposed to the government's efforts to try to regulate our business or consumer behavior through taxes.
5. Should excise taxes on tobacco and alcohol products be increased to pay for the cost of health care reform?
- Philip Morris supports health care reform. However, we share the widely held view that controlling escalating health care costs should obviate the need to raise taxes. However, if additional revenue proves necessary, it should come from broad-based, equitable taxes, and not from excise taxes, which are regressive.

## **Tobacco**

### **Health Care Reform/FET**

6. What does PM USA plan to do about the FET?

- We are strongly opposing an increase in the FET. PM USA Corporate Affairs is actively working to influence FET legislation. PM USA employees and our customers have written letters to their government representatives opposing a tax increase. Finally, we provided our smokers with letter writing kits so that they can also oppose a tax increase.
- We have marketing contingency plans that address potential increases in the FET. Due to the confidential nature of these plans, I am not at liberty to discuss them at this time.

7. What is the status of the Clinton administration's proposal to increase the federal excise tax on tobacco?

- On September 22, 1993, President Clinton, addressing a joint session of Congress, announced his intention to increase the excise tax on tobacco to help pay for his plan to reform health care. He did not specify an amount for the increase.
- In the following month, tax increases from 50 cents all the way up to \$2 and more were floated in the media. Finally, On October 27, the President sent his written plan to Congress, which included a proposed 75-cent increase per pack on cigarettes.

- The media reported that the 75-cent figure represented a compromise, that the administration had not expected the sustained intensity of the opposition it got from tobacco state legislators, from smokers and from the tobacco industry.
- Philip Morris does not consider a 75-cents per pack increase a compromise, but an astonishingly unfair and unwise attempt to get smokers to pay for a program designed to benefit the entire population.
- Our position is No Tax Increase.

8. What is PM doing about it?

- We are aggressively opposing the tax increase proposal, and using all relevant resources to do so:
- Our employees are mobilized against the plan. The thousands of letters they have written to the Administration and the Congress add to the flow of the hundreds of thousands of letters and calls from smokers throughout the country protesting the tax.
- Our employee unions are also very active against the tax, as are small tobacco farmers throughout the tobacco growing regions of the south and east who are, in increasing numbers, coming to Washington, D.C. to demonstrate against its unfairness.

- We are supporting a number of economic impact studies in key states which show exactly how many jobs are at stake that are directly or indirectly tied to tobacco. Legislators stop very quickly and listen intently when you can show them jobs in their own district will be lost as a result of a tobacco tax increase.
- We have started to include tax information cards with the merchandise that is being redeemed through the Marlboro Adventure Team promotion. To date (11/11/93) more than 27,000 individuals have received the cards.
- We are adding to our database as a result of the survey that was sent out with the Bill Campbell letter to the majority of adult smokers. Many of those who returned the survey asked for further information and represent an untapped source of energy and opposition to the excise tax increase proposal.
- We have joined forces with RJR. Their database was also used to provide the names of people to whom information about the tax issue could be sent.
- And we are lobbying Congress, delivering our messages on why tobacco tax increases are a bad idea and simply won't raise the anticipated revenues.

9. Aren't you being hypocritical in complaining about an excise tax increase and its regressive nature when you raised your prices like there was no tomorrow all through the 1980s?
- Not at all. Pricing is actually set by the dynamics of a free market system which include the cost of doing business, economic conditions, and the willingness and ability of consumers to pay. The market ultimately controls the price. If consumers are unwilling to pay a particular price, the seller has to decide if it is willing to lower prices to maintain its business.
  - Excise taxes are not created by a free market system. They are artificial, arbitrary, and permanent. Excise taxes are unaffected by changes in market conditions such as supply and demand. When they are added to the cost of a product, there is nothing consumers who want to buy the product can do about it except pay it.

10. If federal taxes were increased sharply, how badly would it hurt PM's cigarette business?

- The biggest threat to our business is that higher taxes tend to drive sales down. However, because of the equities of our premium cigarette brands, and because of our increasing share of the discount segment, we are not overly concerned with this prospect.
- The case that we make at every opportunity with legislators at every level of government is that high taxes on cigarettes are inflationary, cause significant job loss, and are among the most regressive taxes on the books.
- Although tax increases often have some effect on sales, our experience is that higher taxes do not discourage the great majority of smokers from buying cigarettes. Those smokers who can try to find some way to mitigate the tax, such as buying their cigarettes on military bases or Indian reservations. Local businesses and government tax revenues suffer.

11. What about state and local excise taxes on cigarettes? How badly were we hit last year, and what can we expect in 1993?

- We did extremely well opposing state excise tax increases in 1993. \_\_\_\_\_ state excise tax increases on cigarettes were proposed last year. Only \_\_\_\_\_, including the District of Columbia, were actually passed. This represents a success rate of nearly \_\_\_\_\_ percent.
- At the local level, \_\_\_\_\_ tax increases were proposed and \_\_\_\_\_ passed.
- We will probably see at least as many proposals to hike cigarette excise taxes this year, and I am just as certain we will continue to be successful, overall, in opposing them.

[ specific information on bullets above TK at year-end.]

12. If state and local taxes do keep going up, how badly will it hurt PM's sales?

- Certainly sales will be affected, but the impact will be industry wide.
- The main effect will be on geographical purchasing patterns. What we will see is more smokers crossing the border into low tax states to stock up. Legitimate cigarette retailers in high tax states, especially those near the border, will be hurt the most.
- Also, law enforcement resources can be expected to be stretched to combat increased cigarette smuggling and hijacking.



13. Will the EPA's report on ETS make it harder to defeat tobacco tax increases?

- No. Tax proponents may use the EPA report in an attempt to buttress their arguments, but we doubt if it will sway legislators or voters.
- Taxes are an economic issue, and we think the social engineering agenda of the EPA report is rather transparent to most legislators.

14. If the U.S. raises its federal excise tax, do we expect similar increases in other countries? If so, what are we doing in anticipation?

- There's no reason to expect that the U.S. tax policy will influence the domestic fiscal policy in other countries.
- However, our strategy is to oppose all attempts to levy punitive taxes on cigarettes. Where tax increases are proposed, we will seek a higher specific tax component in order to narrow price differentials and provide greater insurance against price wars.

## **Beer**

### **Excise Taxes**

15. What is your point of view on increased excise taxes on alcohol?

- We oppose an increase in excise taxes on alcohol beverages because they are regressive and weigh most heavily on low and middle income families who can least afford them.
- Excise taxes are also "hidden" from the consumer, raising prices and decreasing sales.

16. What percentage of the price of beer goes to taxes?

- As it stands, the federal excise tax on a six-pack of beer is \$.32. State taxes range from \$.01 to \$.50. Taxes contribute between 10% and 30% of the average price of a six-pack of beer. Even before the January 1991 doubling of the federal excise tax on beer, we had already reached the position where taxes on beer (including state) exceeded the combined cost of the labor and ingredients used to brew it.

17. How much of the cost of excise taxes is passed along to the consumers?

- All increases in excise taxes are passed on to consumers, which is why excise taxes are called "hidden taxes." The consumer pays the tax in the form of higher prices.

Trade

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## Trade

### NAFTA/Uruguay Round

1. What is Philip Morris' position on the North American Free Trade Agreement (NAFTA) and the Uruguay Round of International trade negotiation?
  - Philip Morris strongly supports NAFTA and also supports the Uruguay Round process.
  - Both undertakings aim to liberalize international trade in goods and services and the protection of intellectual property rights, such as trademarks. Our company has many of the world's most valuable trademarks, so those portions of the trade agreements hold great promise for us.
  - In addition, the artificial trade barriers have kept us out of some countries. The removal of trade barriers will provide us with expanded market opportunities. We are well positioned to take advantage of the new opportunities that the removal of foreign trade barriers will offer us. I see both the NAFTA and the Uruguay Round as real "winners" as far as Philip Morris is concerned.

2. NAFTA critics claim that the agreement will result in significant job transfers from the U.S to Mexico. How do you respond to these critics?

- A report by the highly respected U.S. International Trade Commission (ITC) – done at the request of Congress – did find that Mexico would gain more in terms of both employment and economic growth than either Canada or the United States from NAFTA.
- However, the report showed that both the U.S. and Canada would also experience increases in employment and economic activity, and that long-term employment in the U.S. would increase by about 1% as a result of the pact.
- We believe that NAFTA will create expanded market opportunities for Philip Morris and, therefore, result in increased employment opportunities for U.S. workers.

*(May have to be modified to reflect 11/17 passage of NAFTA.)*

3. While I understand the company supports the NAFTA, could you provide an example of how, on the state and local level, we demonstrated our backing of this measure?

- We are a charter member of New York for NAFTA, an organization of New York-headquartered companies that has coalesced to influence the debate on NAFTA. Through meetings with our elected representatives, placement of ads in prominent media, and other vehicles, we hoped to provide momentum in support of this agreement in addition to our efforts in Washington.

4. How will NAFTA affect PM's business?
- To be updated: While we expect little immediate impact, we anticipate, over the long term, greatly enhanced opportunities to sell virtually our entire stable of brands in the Mexican market, a market that heretofore has been protected by a complex system of tariffs and non-tariff barriers.
5. What is KGF's position on the overall NAFTA agreement?
- Mexicans are already buying over \$30 million worth of KGF products annually. NAFTA will create a bigger market for our products and more jobs at our U.S. facilities.
  - Improved access to the Mexican market will create additional demand for farm commodities, helping improve farm income and creating additional employment in the processing of those commodities into value-added, packaged consumer goods.
6. What does KGF/PM think of NAFTA?
- We strongly support this agreement, since the elimination of trade barriers with Mexico has the potential to increase sale of our products by expanding exports from U.S. plants.
7. What is KGF North America doing to assess the opportunities resulting from NAFTA?
- KUSA, GF USA and KGF Canada are looking at a number of cross-border sourcing opportunities. This process started a few years ago with the signing of the Canada U.S. Free Trade Agreement, and is continuing today.

- We have also initiated a KGF North America-wide manufacturing strategy study with the objective of determining the optimum North American manufacturing configuration. It is expected that this study will identify a number of improved cross-border sourcing opportunities that will benefit KGF North America as a whole.
8. Isn't NAFTA going to create a big super-national entity like the European Community?
- No. NAFTA deals with economic matters, while the EC is striving for political as well as economic unity.

#### KGF Canada

9. What will the impact of NAFTA be on KGFC?
- Since the signing of the Canada-U.S. Free Trade Agreement a few years ago, KUSA, GF USA, and KGF Canada have conducted studies together to identify cross-border sourcing opportunities. As a result, we have realigned some production to take advantage of superior capabilities in Canada and the U.S.
  - Over the past year some challenges have emerged in the area of Canadian exports to the U.S. namely in sugar containing products, wheat, beer and to a lesser degree, peanut butter and paste. Canada/U.S. talks have been ongoing on these issues. KGF North America is supportive of all efforts to reach mutually acceptable settlements on these issues and ensure the maintenance of a Canada/U.S. free trade environment.

- In perspective of the passing of NAFTA, we have initiated a further round of North America-wide manufacturing studies which include Mexico to identify opportunities that will benefit KGF North America as a whole.

#### **Canada - U.S. Free Trade (CUSTA)**

10. Since its passage, how has the Canada-US Trade Agreement impacted KGF?
  - This agreement has allowed KGF to better serve its North American customers by rationalizing our production facilities between the U.S. and Canada. In some cases, we have shifted production north; in some cases south. The net effect has been more efficient and profitable operations.
11. What does NAFTA do to CUSTA?
  - CUSTA stays in force until NAFTA takes effect?

#### **Oscar Mayer**

12. Is Oscar Mayer expanding into Mexico or Canada?
  - Oscar Mayer entered into a distribution agreement with Sigma Allmentos in April of 1993 to distribute Oscar Mayer, Louis Rich, and Claussen branded products in Mexico. Oscar Mayer believes that the Mexican market has significant long term potential.
  - Oscar Mayer has entered into distribution agreements with distributors in Canada to distribute Oscar Mayer, Louis Rich, and Claussen branded products in Canada. This venture is believed to have moderate long term potential.



## GATT

13. How will the current GATT negotiations affect our KGF North American business?
- As yet, no agreement has been reached among the participating countries. With the resolution of the U.S. and European grain export subsidies issue, one major obstacle has been resolved.
  - KGF supports free trade across all borders. The Uruguay Round of the GATT provides one more step toward opening up world free trade. As it relates to KGF North America, the most significant outcome of the GATT could be to open up, over time, all borders to significantly increased imports of agricultural products, particularly dairy-based products.
14. How will the current GATT negotiations affect KGF North America?
- As it relates to KGF North America, the most significant outcome of the Uruguay Round of GATT could be in agricultural products, particularly dairy-based products.
  - A new GATT agreement could convert quota systems to tariffs, which would be reduced over a long period of time, possibly 15 years or longer. We do not expect any significant impact in the near term.
15. What impact would a final GATT agreement have on the international food business?
- We welcome and encourage any progress towards the elimination of protectionism and artificial impediments to free movement of goods and raw materials.
  - The specifics of an agreement have not been negotiated, so the precise impact cannot be assessed.

- Any move towards free trade is in the best interest of the company and the consumers we serve around the world. For example, over time, proposed subsidy reductions on European dairy products would serve to make Australian dairy exports more competitive internationally.
- We are investing in Australia to reduce our costs on processed cheese to further enhance our low cost producer position.
- Improved market access should increase export sales from low cost producer countries.

### South Africa

16. What are PM/KGF's plans for South Africa?

- Now that the ANC has requested that the boycott of South Africa and, we are planning to reenter operations in the country, subject to applicable state and federal laws.

## Tobacco

17. Given PM's multinational business structure and its global tobacco sourcing, did PM support the U.S. leaf law?
  - This legislation was a U.S. grower-driven initiative. The American tobacco farmers have been under strong economic pressure in recent years, and we sympathize with their difficult situation.
18. How will the new U.S. leaf law affect PM's business internationally?
  - This new law affects U.S. manufactured cigarettes. Overall, PM will be largely unaffected by the law. U.S. leaf has always been, and will continue to be, by far the largest component of our cigarettes. The pace of our leaf purchases will continue to be based on the quality and price of the tobacco.
  - As Philip Morris International continues to expand its production, the company will have increasing demands for high quality leaf tobacco; i.e., primarily high-quality U.S. leaf.
19. The new U.S. leaf law is being criticized as going against the spirit of GATT. Why did PM support this initiative?
  - This was a grower-driven initiative. The American tobacco farmers have been under strong economic pressures in recent years.

## Tobacco Imports

20. Why did PM USA support the recently enacted Ford Amendment, requiring U.S. cigarette manufacturers to use at least 75% U.S. grown tobacco in their products during each calendar year?
- In passing this law, Senator Ford sought to bring stability to the domestic tobacco program and ensure the long-term viability of tobacco production in the U.S. PM USA believes the U.S. tobacco farmers produce the finest tobacco in the world, and Senator Ford's goals were consistent with our own.
  - Moreover, PM USA is the largest purchaser of U.S. tobacco. Historically, PM has relied less on imported tobacco than our competitors, so the Ford amendment strengthened our competitive position.
21. Does Philip Morris support the North American Free Trade Agreement? What impact would NAFTA have on PM's tobacco business?
- Yes, because we think it will have a positive impact on all of our businesses including tobacco.